

THANACHART CAPITAL PLC

No. 176/2023
14 September 2023

FINANCIAL INSTITUTIONS

Company Rating: A
Issue Ratings:
Senior unsecured A
Outlook: Stable

Last Review Date: 13/07/23

Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A	Stable
14/03/19	A+	Alert Negative
16/01/12	A+	Stable
12/03/10	A	Positive
14/07/05	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thanachart Capital PLC (TCAP) and the ratings on TCAP's senior unsecured debentures at "A", with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A" to TCAP's proposed issue of up to THB2.1 billion senior unsecured debentures due within four years. The proceeds from the new debentures will be used to refinance its outstanding debts.

The company rating is equivalent to the group credit profile (GCP) of Thanachart Group (TGROUPE), which reflects the integrated stand-alone credit profiles (SACP) of its key subsidiaries, including Ratchthani Leasing PLC (THANI), Thanachart Securities PLC (TNS), and Thanachart Insurance PLC (TNI). The ratings also consider TCAP's diversified sources of earnings and relatively high double leverage.

The issue ratings are subject to a one-notch downward adjustment from its company rating due to structural subordination or the lower priority of claims and/or recovery prospects of TCAP's debt obligations compared with claims against its operating subsidiaries. Nonetheless, the notching is offset by a one-notch uplift from its large investment in TMBThanachart Bank PLC (TTB) that consistently generates sizeable dividend income.

KEY RATING CONSIDERATIONS

Diversified financial holding company

TCAP is a non-operating holding company (NOHC) with investments in diversified businesses. These encompass commercial banking, leasing, securities brokerage, insurance, asset-based financing, and distressed asset management, as well as other non-financial businesses.

The company rating on TCAP is anchored by the SACPs of the three major subsidiaries, THANI, TNS, and TNI. These subsidiaries in aggregate contributed 45.1% of the group's consolidated net profit in 2022 and 30.3% in terms of shareholders' equity.

Rising double leverage

TCAP has gradually increased its stakes in several subsidiaries and affiliates over the past two years. This has led to TCAP's double leverage (investments in subsidiaries and associates to shareholders' equity) to rise gradually. Its stake in TTB was 24.95% at the end of June 2023, a marginal increase from 24.85% at the end of 2022.

In the fourth quarter of 2022, TCAP also acquired a 40% additional stake in TNS and TNI from the Bank of Nova Scotia Asia Limited, which exited the Thai market. The transaction raised TCAP's shareholding in both TNS and TNI to 89.96%.

As a result, TCAP's double leverage increased to 112% at the end of June 2023 from the 102% at the end of 2021. A double leverage higher than 120% could result in a one-notch downward adjustment of TCAP's company rating and the issue ratings on its senior unsecured debentures.

Market positions of key subsidiaries remain healthy

The SACPs of TCAP's key subsidiaries are supported by decent market positions in their respective business lines. THANI is a dominant player with long-

standing presence in the truck and luxury car hire purchase market segments. TNS has a competitive edge in the domestic institutional brokerage business with a revenue market share of 5.7% in 2022. TNI ranked fifth in the motor insurance market in terms of direct premiums in 2022. TNI's market share increased to 6% in 2022 from 4.8% in 2021, mainly due to stronger sales through the broker and dealer channels.

Resilient earnings and dividend contributions from group members expected

We maintain our positive view on TCAP's resilient earnings profile, supported by the company's diversified sources of earnings from its subsidiaries and associated companies. The company reported net profit of THB3.8 billion in the first half of 2023, a 7.1% year-on-year (y-o-y) increase, compared with THB3.5 billion in the first half of 2022. We expect the positive trend to continue into the next three years.

Among TCAP's subsidiaries, THANI remains the largest profit contributor to the group's consolidated net profit in 2022, accounting for 27.3% of the total. TNI and TNS contributed 10.8% and 7.0%, respectively, to the group's consolidated net profit for the same period. In terms of dividend income, TTB contributed the largest amount, totaling approximately THB1.3 billion in 2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TCAP's key subsidiaries should be able to maintain their SACPs, while TCAP continues to receive sizeable dividends from TTB given its major stake in the bank. TCAP should also be able to maintain its strong liquidity position and double leverage of not more than 120%.

RATING SENSITIVITIES

An upward rating revision is unlikely in the near term but could occur if there were upward revisions of the SACPs of TCAP's key subsidiaries to a degree that triggers a rating upgrade on TCAP. Conversely, a rating downgrade could happen should there be downward revisions of the SACPs of TCAP's key subsidiaries to the extent that triggers a rating downgrade on TCAP.

A rating downgrade could also result from TCAP's heightened short-term liquidity risk or refinancing risk, or an increase in double leverage above 120%. The issue ratings could also be downgraded should TCAP dilute its holding in TTB materially such that the dividends received from the bank becomes materially less meaningful.

COMPANY OVERVIEW

In April 2005, under the Bank of Thailand's "One Presence" policy, TCAP became a financial holding company of Thanachart Bank PLC (TBANK) and eight other subsidiaries, including TNS, TNI, TLIFE, Thanachart Fund Management Co., Ltd. (TFUND), Thanachart Broker Co., Ltd., Thanachart Group Leasing Co., Ltd., Thanachart Management & Services Co., Ltd., and Thanachart Legal and Appraisal Co., Ltd. TCAP owned TBANK and two asset management companies, NFS Asset Management Co., Ltd. (NFS-AMC) and MAX Asset Management Co., Ltd. (MAX-AMC).

In July 2007, TCAP signed a joint venture agreement with a new strategic partner, Bank of Nova Scotia (BNS), to invest in TBANK. In April 2010, TBANK acquired a 99.98% stake in Siam City Bank PLC (SCIB). In October 2011, all the assets, liabilities, and other financial commitments of SCIB were transferred to TBANK, and SCIB discontinued its operations. As of June 2013, TCAP held a 50.96% stake in TBANK while BNS held 49%.

Effective in May 2013, TBANK sold its life insurance business, TLIFE, to Prudential Life Assurance (Thailand) PLC (PRU) for approximately THB17.5 billion. In addition, TBANK signed a 15-year exclusive agreement with PRU and is now PRU's business partner in banc-assurance services. On 2 June 2014, TBANK sold all the shares of Siam City Life Assurance PLC (SCILIFE), a subsidiary it received in the SCIB acquisition, to TCAP and MBK (rated "A-/stable"). The transaction was worth THB900 million. At the end of June 2015, TCAP held a 51% stake in SCILIFE, while MBK held 49%.

In April 2015, TBANK completed the liquidation process of SCIB, one of its subsidiaries. The liquidation generated tax losses, a part of which the bank has utilized as income tax savings.

On 26 February 2019, signing of a non-binding memorandum of understanding (MOU) by five parties outlined a merger between TMB and TBANK. The five parties included TMB, TBANK, TCAP, International Netherlands Group (ING), and BNS. As the merger focuses on TBANK's banking business, TBANK was required to divest its holdings in its subsidiaries and other investments to TBANK's shareholders based on their respective shareholdings (TCAP 51%; BNS 49%). The subsidiaries include TNS, THANI, TNI, and TS Asset Management Co., Ltd. (TS AMC).

In December 2019, TMB and TBANK completed the share purchases and TBANK became a wholly-owned subsidiary of TMB. As of end-June 2020, TCAP held a 20.1% share in TMB. Shareholdings in other key subsidiaries include effective 57.5% shares in THANI (via 100% shares in Thanachart SPV1 Co., Ltd. (SPV1) and TCAP's own investment), 51% in TNS, and 51% in TNI.

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 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	161,082	157,089	142,735	140,756	160,927
Total loans	68,375	65,107	57,836	52,593	56,277
Allowance for doubtful accounts	2,710	2,724	2,615	2,342	3,118
Short-term borrowings	N.A.	24,364	23,843	11,604	36,669
Long-term borrowings	N.A.	39,781	26,449	35,595	23,771
Shareholders' equity	73,841	72,531	74,141	72,768	74,059
Net interest income	1,682	3,004	2,671	2,593	2,740
Bad debts and doubtful accounts	316	493	483	595	(316)
Non-interest income	4,508	7,964	8,513	10,317	4,863
Operating expenses	1,711	3,276	3,143	2,910	3,153
Net income	3,760	6,428	6,722	7,848	16,760

* Consolidated financial statements

Unit: %

	Jan-Jun 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Net-interest income/average assets	2.11	2.00	1.88	1.72	1.70
Net-interest income/total income	27.17	27.39	23.88	20.08	36.61
Operating expenses/total income	27.65	29.86	28.10	22.54	40.54
Return on average assets	4.73	4.28	4.74	5.20	2.74
Return on average equity	9.95	7.94	8.23	10.33	16.43
Asset Quality					
Non-performing loans/total loans	3.93	3.91	5.33	5.28	5.02
Bad debts and doubtful accounts/average loans	0.95	0.80	0.87	1.09	(0.08)
Allowance for doubtful accounts/total loans	3.96	4.18	4.52	4.45	5.54

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Thanachart Capital PLC (TCAP)

Company Rating:	A
Issue Ratings:	
TCAP230A: THB1,300 million senior unsecured debentures due 2023	A
TCAP246A: THB400 million senior unsecured debentures due 2024	A
TCAP248B: THB200 million senior unsecured debentures due 2024	A
TCAP240A: THB100 million senior unsecured debentures due 2024	A
TCAP256A: THB3,100 million senior unsecured debentures due 2025	A
TCAP257A: THB1,400 million senior unsecured debentures due 2025	A
TCAP258A: THB900 million senior unsecured debentures due 2025	A
TCAP260A: THB1,690 million senior unsecured debentures due 2026	A
TCAP260B: THB640 million senior unsecured debentures due 2026	A
TCAP277A: THB800 million senior unsecured debentures due 2027	A
TCAP300A: THB800 million senior unsecured debentures due 2030	A
TCAP300B THB1,770 million senior unsecured debentures due 2030	A
Up to THB2,100 million senior unsecured debentures due within 4 years	A
Rating Outlook:	Stable

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