

THANACHART CAPITAL PLC

No. 161/2020
12 October 2020

FINANCIAL INSTITUTIONS

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

Last Review Date: 10/04/20

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. The ratings reflect TCAP's diversified business structure, low financial leverage, and manageable risk position. The ratings also take into consideration the strong market positions of TCAP's key subsidiaries in their respective businesses. The ratings are, however, constrained by the potential impact of the Coronavirus Disease 2019(COVID-19) pandemic on the company's profitability over the next 12-18 months.

KEY RATING CONSIDERATIONS

Diversified business structure

TCAP's strong business position is underpinned by a diversified business structure that encompasses commercial banking and other financial businesses including leasing, securities brokerage, insurance, and distressed asset management. TCAP has three key subsidiaries, namely Ratchathani Leasing (THANI), Thanachart Securities (TNS), and Thanachart Insurance (TNI). The banking business is represented by its 20% equity stake in TMB Bank (TMB), the sixth largest commercial bank in Thailand. Over the next few years, we expect around 30% of TCAP's operating income to come from its share of profit from the commercial banking business (TMB) and the remaining 70% from its subsidiaries and the other associated company.

Our assessment of TCAP's business position reflects the strong market positions of its key subsidiaries in their respective business lines. THANI is a dominant player with long-standing presence in the trucks and luxury cars hire purchase market segments while TNS has a competitive edge in providing comprehensive and high-quality research and sales services for institutional clients. Lastly, TNI is ranked sixth in the automobile insurance market with a market share of 4.90% based on premiums received in 2019.

Low financial leverage

We expect TCAP will continue maintaining low financial leverage on a consolidated basis, as measured by the debt to equity (D/E) ratio, despite the extra dividend distributions, share buyback, and expected weak operating performance of its associated companies in 2020.

Over the next two years, we expect TCAP's D/E ratio to stay below 1.50 times compared with 1.08 times at the end of June 2020. Under our base case scenario, we project TCAP's outstanding debentures to total around THB11-13 billion over the next two years with a continuation of the company's progressive dividend payout policy.

Profitability under pressure

We expect TCAP's profitability to come under pressure during the next 12-18 months, reflecting the threats to the operating performances of its associated companies that are facing a low-interest-rate environment, deterioration of asset quality, and a significant decrease in rental fees from the commercial property business. However, we believe TCAP's diversified sources of revenue will help alleviate the impacts of COVID-19. Despite the challenging credit environment, we expect the operating performances of TCAP's key subsidiaries will remain resilient over the next two years, thanks to their strong market positions and prudent risk management.

TCAP's normalized return on average assets (ROAA) in the first half of 2020 was 3.59% on an annualized basis. We expect TCAP's earnings will gradually improve from 2021 onwards in line with an expected gradual recovery of the overall economy. We estimate TCAP's normalized ROAA to sustain at a level above 3% during 2021-2022.

Manageable risk position

TRIS Rating considers TCAP's risk management as adequate reflecting our expectation that the company will be able to manage the risks stemming from challenging credit markets induced by COVID-19 over the next 12-18 months. At the subsidiary level, we believe the impact of COVID-19 on THANI will be limited by its low exposure to the tourism-related segment, conservative credit underwriting criteria, and proactive risk management. TNS's exposure to credit risk is also minimal thanks to its well-managed margin loan exposure. At the same time, TNI is continuing its selective growth strategy, thereby avoiding high-risk exposure. At the end of June 2020, TNI's capital adequacy ratio was 1,162%, way above the regulatory minimum requirement of 140%.

Adequate funding and liquidity position

We assess TCAP's funding position as adequate over the next 12 months. Our assessment takes into account its 2-year average stable funding ratio (SFR) of 109.6%. At the end of June 2020, stable funding needs (SFN) consisted of investments in subsidiaries and associated companies (59%), the non-current portion of loans (37%), and foreclosed assets (4%). Equity made up around 70% of TCAP's available stable funding, while the remainder was composed of long-term debentures with a diversified maturity profile. On a stand-alone basis, TCAP had outstanding debentures of THB13.6 billion at the end of June 2020, around 80% of which have a maturity date of beyond one year.

TCAP's liquidity position is also considered adequate over the next 12 months. In our view, TCAP's sources of liquidity comfortably covered its short-term obligations. We forecast a 2-year average liquidity coverage measure (LCM) ratio of 1.14 times. On a stand-alone basis, TCAP's debt obligations coming due over the next 12 months include THB2.9 billion of debentures. At the end of June 2020, TCAP's sources of liquidity comprised THB5.1 billion in interbank assets and THB2.5 billion in financial assets.

BASE-CASE ASSUMPTIONS

TRIS Rating's base case assumptions are partly derived from its key subsidiaries. During the next three years from fiscal year (FY) 2020 to FY2022, our base case assumptions are as follows:

- Total revenues (excluding extra items) to gradually grow 8-10% per annum
- Share of profit from associated businesses to account for around 30% of total operating income
- Cost-to-income to be in the range of 32-34%
- Outstanding debentures of THB11-13 billion on a stand-alone basis

RATING OUTLOOK

The "stable" outlook reflects our expectation that TCAP will be able to maintain low financial leverage, prudent risk management, diversified sources of revenue, and healthy funding and liquidity profiles.

RATING SENSITIVITIES

The prospect for ratings upgrade is limited in the near term. However, ratings downgrade could happen if TCAP's capital, as measured by its D/E ratio, rises above 1.50 times, and/or its funding and liquidity profile deteriorates significantly.

COMPANY OVERVIEW

In April 2005, under the Bank of Thailand's "one presence" policy, TCAP became a financial holding company of TBANK and eight other subsidiaries, including Thanachart Securities PLC (TNS), Thanachart Insurance PLC (TNI), Thanachart Life Assurance PLC (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 (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 PLC (MBK, rated "A" by TRIS Rating). 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 MOU by five parties outlined a merger between TMB and TBANK. The five parties included TMB, TBANK, TCAP, 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 SPV1 and TCAP's own investment), 51% in TNS, and 51% in TNI.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *
Unit: Mil. THB

| | Jan-Jun 2020 | ----- Year Ended 31 December ----- | | | |
|---------------------------------|-----------------|------------------------------------|-----------|-----------|---------|
| | | 2019 | 2018 | 2017 | 2016 |
| Total assets | 148,732 | 160,927 | 1,060,929 | 1,025,525 | 966,867 |
| Total loans | 54,587 | 56,277 | 751,270 | 713,362 | 692,676 |
| Allowance for doubtful accounts | 3,493 | 3,118 | 24,145 | 24,518 | 25,155 |
| Short-term borrowings | 24,496 | 34,169 | 79,354 | 87,652 | 72,473 |
| Long-term borrowings | 31,120 | 26,271 | 47,582 | 46,287 | 54,932 |
| Deposits | - | - | 751,917 | 716,091 | 676,456 |
| Shareholders' equity | 71,639 | 74,059 | 137,918 | 130,070 | 119,851 |
| Net interest income | 1,339 | 2,740 | 30,767 | 29,170 | 28,468 |
| Bad debts and doubtful accounts | 373 | -316 | 4,785 | 6,236 | 6,210 |
| Non-interest income | 7,685 | 4,863 | 13,408 | 13,402 | 12,231 |
| Operating expenses | 1,439 | 3,153 | 20,979 | 20,836 | 21,025 |
| Net income | 5,953 | 16,760 | 15,806 | 14,341 | 12,611 |

* Consolidated financial statements

Unit: %

| | Jan-Jun 2020 | ----- Year Ended 31 December ----- | | | |
|---|-----------------|------------------------------------|-------|-------|-------|
| | | 2019 | 2018 | 2017 | 2016 |
| Profitability | | | | | |
| Net-interest income/average assets | 1.73 | 0.45 | 2.95 | 2.93 | 2.90 |
| Net-interest income/total income | 14.84 | 36.04 | 69.65 | 68.52 | 69.95 |
| Operating expenses/total income | 15.95 | 41.47 | 47.49 | 48.94 | 51.66 |
| Return on average assets | 7.69 ** | 2.74 | 1.52 | 1.44 | 1.28 |
| Return on average equity | 16.54 ** | 15.70 | 12.25 | 11.80 | 10.89 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 7.08 | 5.02 | 2.36 | 2.34 | 2.33 |
| Bad debts and doubtful accounts/average loans | 1.35 ** | (0.08) | 0.65 | 0.89 | 0.88 |
| Allowance for doubtful accounts/total loans | 6.40 | 5.54 | 3.20 | 3.44 | 3.63 |
| Capitalization | | | | | |
| Risk-adjusted capital ratio | - | - | - | - | - |
| Shareholders' equity/total loans | 1.31 | 1.32 | - | - | - |
| Debt to equity (time) | 1.08 | 1.17 | - | - | - |
| Liquidity | | | | | |
| Stable funding ratio | 115.77 | 110.95 | - | - | - |
| Liquidity coverage measure (times) | 1.45 | 1.11 | - | - | - |
| Short-term borrowings/total liabilities | 12.16 | 17.51 | - | - | - |
| Total loans/total assets | 36.70 | 34.97 | - | - | - |

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Thanachart Capital PLC (TCAP)

| | |
|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| TCAP20NA: THB2,900 million senior unsecured debentures due 2020 | A |
| TCAP22NA: THB3,000 million senior unsecured debentures due 2022 | A |
| TCAP238A: THB500 million senior unsecured debentures due 2023 | A |
| TCAP230A: THB1,300 million senior unsecured debentures due 2023 | A |
| TCAP258A: THB900 million senior unsecured debentures due 2025 | A |
| Rating Outlook: | Stable |

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