

THANACHART CAPITAL PLC

No. 173/2021
15 October 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 12/10/20

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" rating outlook. The ratings reflect TCAP's diversified sources of earnings, low financial leverage, and sound risk position. The ratings also take into consideration the strong market positions of TCAP's key subsidiaries in their respective businesses.

KEY RATING CONSIDERATIONS

Diversified sources of earnings

Our assessment of TCAP's business position reflects its diversified sources of earnings. These encompass commercial banking and other financial businesses including leasing, asset-based financing, securities brokerage, insurance, and distressed asset management. TCAP has three key subsidiaries, namely Ratchathani Leasing PLC (THANI), Thanachart Securities PLC (TNS), and Thanachart Insurance PLC (TNI). The banking business is represented by its 22% equity stake in TMBThanachart Bank PLC (TTB), the sixth largest commercial bank in Thailand. TCAP recently established a new wholly-owned subsidiary in charge of asset-based financing business, named as Thanachart Plus Co., Ltd. in May 2021. The company is involved mainly in lending to small and medium enterprises (SMEs) using lands and properties as collaterals.

Aside from a diversified business structure, there is evidence of increased business collaborations between its key subsidiaries, for example, the offering of insurance products of TNI to THANI's and TTB's customers.

Expertise in lending supports to new business

We view the establishment of Thanachart Plus as positive move since we believe it could help further strengthen TCAP's overall business position in the longer run. We also recognize the management's long-standing expertise in lending business, which should help mitigate credit risk. In our view, this will also help TCAP to better utilize its excess liquidity by generating higher average risk-adjusted returns. Since its establishment, as of May 2021, Thanachart Plus's portfolio already reached about THB1 billion with the potential to expand steadily, fueled by commercial banks' stringent underwriting policies for the SME sector.

Low financial leverage

TCAP's has low financial leverage, as measured by the debt to equity (D/E) ratio, which remains one of its key credit strengths. At the end of June 2021, TCAP's D/E was 0.94 times, compared with 0.93 times at the end of 2020. We expect TCAP will continue maintaining its D/E ratio below 1.50 times on a consolidated basis. This is based on our assumptions that TCAP's outstanding debentures will total around THB11-THB13 billion over the next two years with the continuation of its progressive dividend payout policy.

Diversification supports earnings

Despite the challenging economic environment, TCAP has delivered resilient earnings, propelled by its diversified business structure. In our view, the company's capital market, leasing, and non-life insurance businesses continued to provide good sources of revenue. This is on the back of their strong market positions in their respective businesses and prudent risk

management. We anticipate TCAP's normalized return on average assets (ROAA) to recover to 3.5%-4.2% in 2021-2022 from 3.2% in 2020. Assuming the gradual recovery of the overall economy over the next two years, we forecast loan growth to gradually resume for TTB and THANI. We also project a fall in credit costs and better cost control after TMB Bank PLC (TMB) and Thanachart Bank PLC (TBANK) have fully integrated. We expect TNI to deliver reasonably sound financial performance, despite some cost pressure from information technology (IT) investments over the next few years.

Risk position remains sound

TCAP's prudent risk culture continues to underpin its adequate risk profile, in our view. TTB and THANI have been able to manage the credit risks induced by the prolonged outbreaks of the Coronavirus Disease 2019 (COVID-19) pandemic so far. We believe both TTB and THANI have passed the worst of this economic crisis in 2020-2021 and are likely to report stronger performance in 2022 as the economy gradually recovers. For TNS, the ability in managing risk from its margin loan portfolio is evidenced by zero credit loss from margin loan business during the past two years. TNI also pursues selective growth strategy by avoiding the high-risk segment. At the end of June 2021, TNI's capital adequacy ratio was 1,313%, well above the regulatory minimum requirement of 120%.

Adequate funding and liquidity position

We expect TCAP to maintain its funding profile at an adequate level over the next 12 months. We take into account its 5-year average stable funding ratio (SFR) of 125%. At the end of December 2020, stable funding needs (SFN) consisted of investments in subsidiaries and associated companies (63%), the non-current portion of loans (32%), and foreclosed assets (4%). Equity made up around 67% of TCAP's available stable funding, while the remainder comprised long-term debentures with a diversified maturity profile. On a stand-alone basis, TCAP's short-term funding sources comprised interbank borrowings, while on a long-term basis, it had outstanding debentures of THB10.7 billion at the end of June 2021. The company's priority debt to total debt was at 78% as of June 2021. A priority debt ratio of over 50% generally triggers a notch-down of senior unsecured issue ratings from the company rating, according to TRIS Rating's "Issue Rating Criteria". However, we view TCAP's substantial investment in TTB has significantly improved the recovery prospects of its senior unsecured obligations. Therefore, the company is exempt from the notch-down requirement on the ratings assigned to its senior unsecured debentures.

We assess TCAP to have adequate liquidity over the next 12 months. We forecast the liquidity coverage measure (LCM) on a consolidated basis to average around 170% for the 5-year period (2019-2023). At the end of December 2020, TCAP's broad liquid assets comprising short-term government and state enterprise securities, corporate bonds, and interbank lending totaled THB7.1 billion.

BASE-CASE ASSUMPTIONS

Our base-case assumptions, as partly derived from TCAP's key subsidiaries over the next three years from the fiscal years 2021 to 2023, are as follows:

- Total revenues (excluding extra items) to gradually grow at 10% per annum.
- Share of profit from associated businesses to account for around 30% of total operating income.
- Cost-to-income to average at 28%.
- Outstanding debentures of THB11-THB13 billion on a stand-alone basis.

RATING OUTLOOK

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

RATING SENSITIVITIES

The prospect for a rating upgrade is limited in the near term. However, a rating downgrade could happen if TCAP's capital, as well as funding and liquidity profile deteriorate 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 TNS, 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 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 PLC (MBK, rated "A-/Stable" 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 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 SPV1 and TCAP's own investment), 51% in TNS, and 51% in TNI.

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

| | Jan-Jun 2021 | ----- Year Ended 31 December ----- | | | |
|---------------------------------|-----------------|------------------------------------|---------|-----------|-----------|
| | | 2020 | 2019 | 2018 | 2017 |
| Total assets | 141,332 | 140,756 | 160,927 | 1,060,929 | 1,025,525 |
| Total loans | 55,740 | 52,593 | 56,277 | 755,270 | 713,362 |
| Allowance for doubtful accounts | 2,446 | 2,342 | 3,118 | 24,145 | 24,518 |
| Short-term borrowings | - | 11,604 | 36,669 | 79,354 | 87,652 |
| Long-term borrowings | - | 35,595 | 23,771 | 47,582 | 46,287 |
| Deposits | - | - | - | 751,917 | 716,091 |
| Shareholders' equity | 72,696 | 72,768 | 74,059 | 137,918 | 130,070 |
| Net interest income | 1,292 | 2,593 | 2,740 | 30,767 | 29,170 |
| Bad debts and doubtful accounts | 236 | 595 | -316 | 4,785 | 6,236 |
| Non-interest income | 3,951 | 10,317 | 4,744 | 13,408 | 13,402 |
| Operating expenses | 1,565 | 2,910 | 3,034 | 20,979 | 20,836 |
| Net income | 2,958 | 7,848 | 16,760 | 15,806 | 14,341 |

* Consolidated financial statements

Unit: %

| | Jan-Jun 2021 | ----- Year Ended 31 December ----- | | | |
|---|-----------------|------------------------------------|--------|-------|-------|
| | | 2020 | 2019 | 2018 | 2017 |
| Profitability | | | | | |
| Net-interest income/average assets | 1.83 | 1.72 | 1.70 | 2.95 | 2.93 |
| Net-interest income/total income | 24.64 | 20.08 | 36.61 | 69.65 | 68.52 |
| Operating expenses/total income | 29.86 | 22.54 | 40.54 | 47.49 | 48.94 |
| Return on average assets | 4.19 | 3.22 | 2.11 | 1.52 | 1.44 |
| Return on average equity | 7.06 | 6.28 | 2.82 | 12.27 | 11.78 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 5.28 | 5.13 | 5.02 | 2.67 | 2.65 |
| Bad debts and doubtful accounts/average loans | 0.87 | 1.09 | (0.08) | 0.65 | 0.89 |
| Allowance for doubtful accounts/total loans | 4.39 | 4.45 | 5.54 | 3.20 | 3.44 |
| Capitalization | | | | | |
| Risk-adjusted capital ratio | - | - | - | - | - |
| Shareholders' equity/total loans | 1.30 | 1.38 | 1.32 | - | - |
| Debt to equity (time) | 0.94 | 0.93 | 1.17 | - | - |
| Liquidity | | | | | |
| Stable funding ratio | - | 122.83 | 105.18 | - | - |
| Liquidity coverage measure (times) | - | 2.22 | 1.01 | - | - |
| Short-term borrowings/total liabilities | - | 17.07 | 42.21 | - | - |
| Total loans/total assets | 39.44 | 37.36 | 34.97 | - | - |

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Thanachart Capital PLC (TCAP)

| | |
|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| 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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