

THANACHART CAPITAL PLC

No. 159/2024
16 September 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 24/05/24

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 company rating is equivalent to the group credit profile (GCP) of Thanachart Group (TGROUP), which factors in the weighted average stand-alone credit profile (SACP) of its key subsidiaries, including Ratchthani Leasing PLC (THANI), Thanachart Securities PLC (TNS), and Thanachart Insurance PLC (TNI).

The GCP incorporates a one-notch enhancement from the positive implication of investment diversification and the neutral effect of the double leverage ratio, which we expect to remain below the 120% threshold in the medium term.

The issue ratings are adjusted down by one notch due to structural subordination given TCAP's status as a non-operating holding company (NOHC). 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

NOHC with diversified investments

TCAP invests in both financial and non-financial sectors, including commercial banking, leasing, securities brokerage, insurance, asset-based financing, distressed asset management, and other non-financial businesses.

The company's major subsidiaries—THANI, TNS, and TNI—contribute around 30% of the group's consolidated net profit in the first half of 2024 (1H24) and its shareholders' equity at end-1H24.

In addition to its investment in TTB, TCAP recently acquired minority stakes in TISCO Financial Group PLC (TISCO) at a cost of THB1.4 billion in the second quarter of 2024 (2Q24). This allows TCAP to benefit from sizeable dividend income from both TTB and TISCO.

Key subsidiaries remain healthy

The SACPs of TCAP's key subsidiaries are bolstered by their strong market positions within their respective businesses. THANI is an industry leader in the hire purchase market for trucks and luxury cars. At the same time, TNS has strong franchise in the domestic institutional brokerage segment, while TNI secured the fifth position in the motor insurance based on direct premiums in 2023. Notably, TNI's market share gradually increased from 4.8% in 2021 to 6.4% in 2023, primarily due to increased sales through broker and dealer channels, despite the slowdown in car sales.

Maintaining resilient earnings

In our view, TCAP's earnings capacity remains robust, driven by the diversified sources of earnings from its subsidiaries and associated companies. The company's consolidated financial performance improved moderately, with net profit increasing by 5.9% year-on-year (y-o-y) to THB4.0 billion in 1H24, compared to THB3.8 billion in 1H23.

Among TCAP's subsidiaries, THANI was the largest contributor to the group's consolidated net profit in 1H24, representing 15% of the total. TNI followed with a contribution of 12%, while TNS accounted for 2% of the consolidated net profit.

Regarding profit contribution from associate companies, TTB stood out as the largest source, generating around THB2.7 billion in 1H24. The higher profit from TTB last year helped counterbalance the underperformance of its key subsidiaries. We expect profit from TTB to continue following a rising trend in 2024-2025, which should help support TCAP's overall financial performance.

Double leverage to decline gradually

We project TCAP's double leverage to decrease gradually over the next two years. This could be driven by faster expansion of the equity base due to the accumulation of retained earnings. We expect investments in subsidiaries and associates to grow at a slower pace as we do not anticipate TCAP to make additional significant investments in the near future.

TCAP's double leverage at the end of June 2024 was 111%, relatively stable compared to 110% at the end of 2023. We expect the ratio to decline gradually below 110% over the next few years. A double leverage higher than 120% could result in a one-notch downward adjustment of GCP of Thanachart Group and hence TCAP's company rating as well as the issue ratings on its senior unsecured debentures.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TCAP's key subsidiaries should maintain their SACPs, while TCAP maintains 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 an upgrade of the SACP of TCAP's key subsidiaries to the degree that the weighted average SACP is raised significantly higher.

Conversely, a rating downgrade could happen should there be a downgrade of the SACPs of TCAP's key subsidiaries that cause the weighted average SACP to fall materially lower. A downgrade could also occur if TCAP's short-term liquidity risk or refinancing risk increases significantly, or TCAP's double leverage increases above 120%. The issue ratings could also be downgraded should TCAP dilute its holding in TTB materially.

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.

In July 2007, TCAP signed a joint venture agreement with Bank of Nova Scotia (BNS), to invest in TBANK. TBANK later acquired a 99.98% stake in Siam City Bank PLC (SCIB) in April 2010. In 2013, TBANK sold its life insurance business, TLIFE, to Prudential Life Assurance (Thailand) PLC (PRU) and signed a 15-year exclusive agreement with PRU for banc-assurance services.

On 2 June 2014, TBANK sold all the shares of Siam City Life Assurance PLC (SCILIFE), a subsidiary of SCIB, to TCAP and MBK. 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, TMB Bank (TMB) and TBANK merged after the five parties, including TMB, TBANK, TCAP, International Netherlands Group (ING), and BNS signed a non-binding memorandum of understanding (MOU). Following the merger initiative, TBANK divested its holdings in its subsidiaries and other investments to TBANK's shareholders based on their respective shareholdings (TCAP 51%; BNS 49%). By December 2019, TMB and TBANK completed the share purchases and TBANK became a wholly-owned subsidiary of TMB. TCAP is currently the largest shareholder of TTB. THANI, TNS, TNI became the major subsidiaries of TCAP.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Jun 2024 | ----- Year Ended 31 December ----- | | | |
|---------------------------------|-----------------|------------------------------------|---------|---------|---------|
| | | 2023 | 2022 | 2021 | 2020 |
| Total assets | 163,455 | 161,944 | 157,089 | 142,735 | 140,756 |
| Total loans | 66,022 | 67,484 | 65,107 | 57,836 | 52,593 |
| Allowance for doubtful accounts | 2,821 | 2,901 | 2,724 | 2,615 | 2,342 |
| Short-term borrowings | 25,080 | 21,929 | 24,364 | 23,843 | 11,604 |
| Long-term borrowings | 39,582 | 42,869 | 39,781 | 26,449 | 35,595 |
| Shareholders' equity | 77,476 | 76,107 | 72,531 | 74,141 | 72,768 |
| Net interest income | 1,542 | 3,374 | 3,004 | 2,671 | 2,593 |
| Expected credit losses | 382 | 1,016 | 493 | 483 | 595 |
| Non-interest income | 4,869 | 8,954 | 7,964 | 8,513 | 10,317 |
| Operating expenses | 1,725 | 3,410 | 3,275 | 3,143 | 2,910 |
| Net income | 3,981 | 7,207 | 6,428 | 6,722 | 7,848 |

* Consolidated financial statements

Unit: %

| | Jan-Jun 2024 | ----- Year Ended 31 December ----- | | | |
|---|-----------------|------------------------------------|-------|-------|-------|
| | | 2023 | 2022 | 2021 | 2020 |
| Profitability | | | | | |
| Net-interest income/average assets | 1.90 | 2.12 | 2.00 | 1.88 | 1.72 |
| Net-interest income/total income | 24.05 | 27.37 | 27.39 | 23.88 | 20.08 |
| Operating expenses/total income | 26.89 | 27.66 | 29.86 | 28.10 | 22.54 |
| Return on average assets | 4.83 | 4.48 | 4.19 | 4.73 | 5.24 |
| Return on average equity | 10.38 | 9.65 | 7.93 | 8.31 | 10.47 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 4.36 | 4.32 | 3.91 | 5.33 | 5.28 |
| Expected credit losses/average loans | 1.14 | 1.53 | 0.80 | 0.87 | 1.09 |
| Allowance for doubtful accounts/total loans | 4.27 | 4.30 | 4.18 | 4.52 | 4.45 |

RELATED CRITERIA

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

Thanachart Capital PLC (TCAP)

| | |
|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| 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 |
| TCAP261A: THB1,100 million senior unsecured debentures due 2026 | A |
| TCAP265A: THB1,000 million senior unsecured debentures due 2026 | A |
| TCAP260A: THB1,690 million senior unsecured debentures due 2026 | A |
| TCAP260B: THB640 million senior unsecured debentures due 2026 | A |
| TCAP272A: THB1,500 million senior unsecured debentures due 2027 | A |
| TCAP277A: THB800 million senior unsecured debentures due 2027 | A |
| TCAP285A: THB1,000 million senior unsecured debentures due 2028 | A |
| TCAP300A: THB800 million senior unsecured debentures due 2030 | A |
| TCAP300B THB1,770 million senior unsecured debentures due 2030 | A |
| TCAP315A THB1,500 million senior unsecured debentures due 2031 | A |
| Rating Outlook: | Stable |

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