

COUNTRY GROUP HOLDINGS PLC

No. 165/2018

22 October 2018

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on Country Group Holdings PLC (CGH) at "BBB-". The rating reflects the group's adequate liquidity and strong capital base as well as its well-diversified sources of revenue. The rating is, however, constrained by its exposure to market risk from its principal investment activities and its volatile consolidated net profits.

KEY RATING CONSIDERATIONS

Adequate liquidity and strong capital base

TRIS Rating views that CGH has sufficient liquidity to support its investment plans as the company has a total of Bt1,403 million cash on hand at the end of June 2018. In addition, the company has maintained investment portfolios comprising marketable securities. CGH's ratio of liquid assets to total assets was 58.1% at the end of June 2018.

TRIS Rating believes that CGH's capital structure will remain healthy as the company continues to pursue prospective investment opportunities. At the end of June 2018, the company's ratio of equity to adjusted assets remained high at 72.2% with a total interest-bearing debt of Bt1,279 million and a total shareholder's equity of Bt5,948 million.

Diversified sources of revenue

CGH's sources of revenue are diverse and not solely concentrated in brokerage fees, despite having Country Group Securities PLC (CGS) as the only core operating subsidiary of the group. Over the past four years, fees earned from securities and derivatives brokerage businesses accounted for an average of 51% of CGH's total revenue. At the same time, fee and services income, mainly from CGS's investment banking businesses, contributed an average of 5%. Gains on trading in securities and derivatives represented an average of 14% of the company's total revenues as CGH also has its own active investment portfolios and proprietary trading in addition to those of CGS.

Share gains from CGH's associated companies, MFC Asset Management PLC (MFC), Padaeng Industry PLC (PDI), and Country Group Development PLC (CGD), contributed an average of 11% to CGH's total revenues over the past four years. We expect that revenue contributions from CGH's associated companies will increase as MFC's and PDI's profitability are expected to improve over the next few years.

Some exposure to market risk

CGH's risk profile is affected by the company's principal investment activities. In addition to seeking investment opportunities, CGH maintains active investment portfolios as an alternative strategy to manage its cash surplus and enhance returns. Also, the proprietary trading, which was once under CGS is now under CGH after the group restructuring. Although most of the investments were in high quality securities, e.g., investment-grade corporate bonds and highly liquid stocks, the activities expose the company to a certain degree of market risk. Nonetheless, TRIS Rating expects that CGH will continue to maintain adequate risk management systems to oversee its principal investment activities.

Volatile net profits

Over the past four years, CGH’s net profits have fluctuated. The company incurred a net loss of Bt20million for the first six months of 2018. Weaker performance of CGS, due to the sales of its retail brokerage businesses and decreasing brokerage commission rates, was one of the factors contributing to CGH’s deteriorating net income. In addition, a decrease in share gains from associated companies also affected CGH’s net profits for the first six months of 2018 as PDI’s share gains decreased significantly over that period. TRIS Rating expects that CGH’s net profit will improve and become more stable as CGS continues to improve its operating performances and PDI and MFC continue to contribute a stable share of profits to CGH.

RATING OUTLOOK

The “stable” outlook reflects our expectation that CGS, as the core operating subsidiary of CGH, will maintain its financial performance and continue to improve its competitive position in securities business. We also expect that CGH will continue to receive reliable cash flows from its affiliated companies.

RATING SENSITIVITIES

The rating and/or outlook of CGH could be revised upward should the financial performance of CGH improve on a sustainable basis. A rating downside may occur if CGS’s profitability continues to deteriorate or if dividend incomes CGH receives from its affiliated companies lessen significantly due to the affiliated companies’ weaker operating performances.

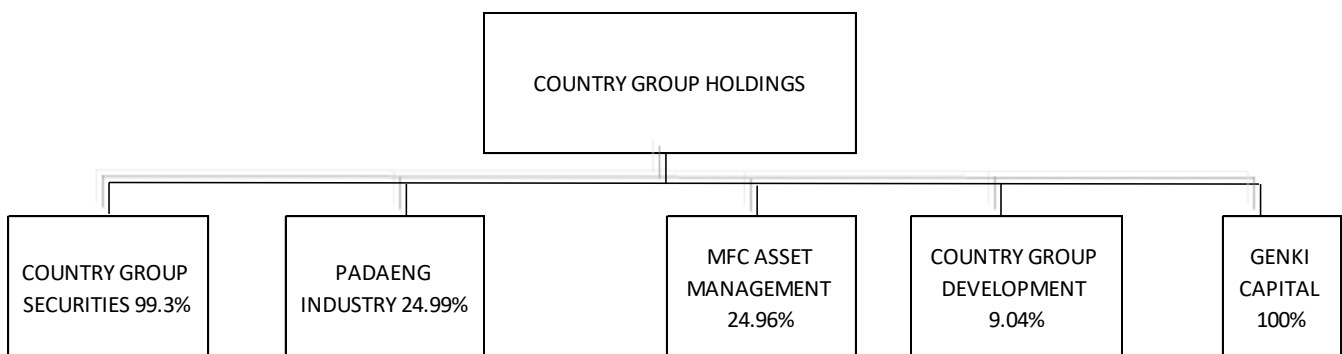
COMPANY OVERVIEW

CGH is an investment holding company that makes long-term investments in various business sectors. The company was established on 15 May 2014 as a part of a restructuring plan of Country Group Securities PLC (CGS). CGH made an offer to purchase all securities of CGS at the exchange rate of one common share of CGS for one common share of CGH. After successfully completing the offer, CGH became the major shareholder of CGS. CGH then replaced CGS to become listed on the Stock Exchange of Thailand (SET) on 8 January 2015, with CGS as a core subsidiary. CGH’s subsidiaries and affiliated companies currently include Genki Capital Co., Ltd., MFC, PDI, and CGD. Investment in CGH’s affiliated companies totalled Bt1,678 million in 2017, of which 31.5% was in MFC and 68.5% was in PDI.

In 2015, CGH increased its paid-up capital to Bt4,337 million from Bt2,566 million at the allocation ratio of one existing ordinary share per one ordinary share at Bt1.30 per share. During the same year, the company acquired additional stakes in PDI to a total stake of 20.69%, resulting in PDI becoming an associated company of CGH. CGH then established Genki Power Co., Ltd. with a capital of Bt100 million on 1 February 2016.

In 2016, CGH increased shareholding in PDI to 24.9% of PDI’s paid registered capital. In 2017, CGH had a total registered capital of Bt6,075,927,916 and a total paid-up capital of Bt4,336,768,278. On 17th May 2017, the company changed the registered company name of Genki Power Co., Ltd. to Genki Capital Co., Ltd.

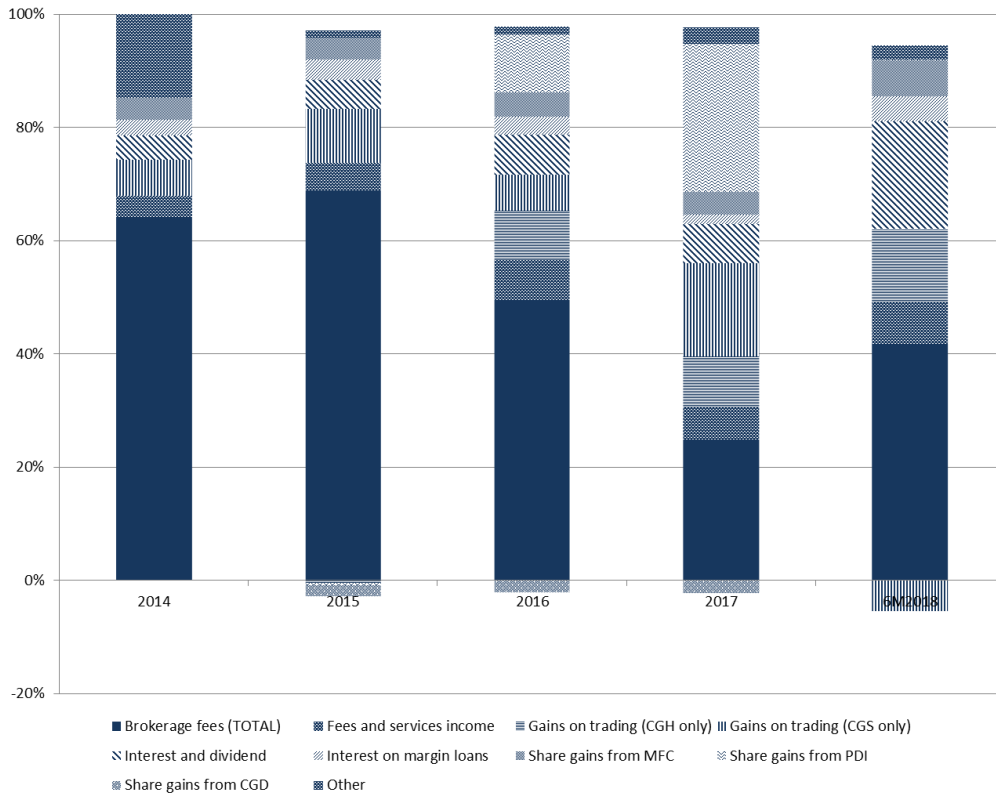
Chart 1: CGH Group Structure as of Dec 2017



Source: CGH

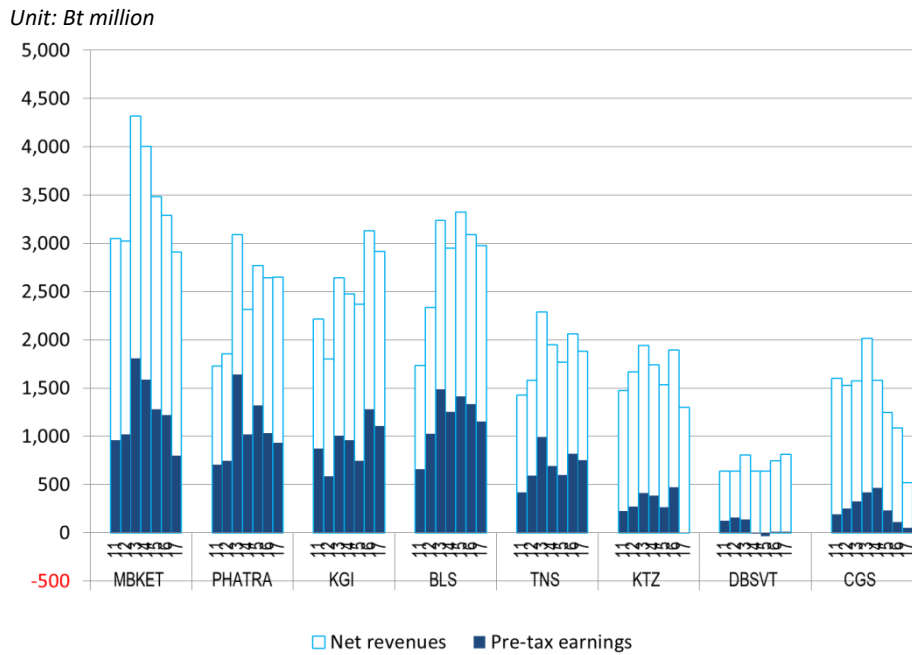
KEY OPERING PERFORMANCE

Chart 2: CGH's Revenue Mix during 2014-1H2018



Sources: CGH's financial statements

Chart 3: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2017



Sources: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Total assets	9,782	8,804	7,925	6,929	5,757
Net Investment in securities	4,287	4,262	2,237	1,536	1,245
Total securities business receivables and accrued interest receivables	1,228	1,098	817	1,594	2,660
Allowance for doubtful accounts	372	376	365	352	356
Total debts	1,279	1,224	-	-	-
Shareholders' equity	5,948	6,190	6,021	5,839	3,487
Net securities business income	182	482	780	1,030	1,175
Total income	293	851	1,357	1,186	1,600
Operating expenses	248	538	798	951	1,007
Interest expenses	40	12	11	20	21
Net income	(20)	235	392	61	384

Unit: %

	----- Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Profitability					
Brokerage fees/total revenues	46.8	25.2	39.9	73.1	64.0
Fees and services income/total revenues	8.3	6.1	5.8	5.1	3.9
Gain (loss) from trading/total revenues	8.4	26.0	12.3	9.6	6.4
Operating expenses/net revenues	97.8	64.1	59.3	81.6	63.7
Pre-tax margin	(12.4)	26.6	31.6	10.0	29.4
Return on average assets	(0.4) *	2.8	5.3	1.0	7.3
Return on average equity	(0.7) *	3.8	6.6	1.3	11.2
Asset Quality					
Classified receivables/gross securities business receivables	32.3	36.2	48.6	24.9	15.0
Allowance for doubtful accounts/gross securities business receivables	30.3	34.2	44.7	22.1	13.4
Credit costs (reversal)	(0.3)	1.1	1.0	(0.2)	0.1
Capitalization					
Equity/Adjusted assets	72.2	76.4	88.5	94.6	85.1
Liquidity					
Liquid assets/total assets	58.1	62.4	46.8	43.1	41.1
Liquid assets/adjusted assets	69.0	67.8	54.5	48.4	57.8
Less liquid assets/long-term capital	13.6	11.4	11.1	17.4	32.1

* Annualized

Country Group Holdings PLC (CGH)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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