

# COUNTRY GROUP SECURITIES PLC

No. 166/2018

22 October 2018

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

## RATIONALE

TRIS Rating assigns the company rating on Country Group Securities PLC (CGS) at “BBB-”. The rating reflects CGS’s status as a core subsidiary of the group, Country Group Holdings PLC (CGH, rated “BBB-/Stable” by TRIS Rating), based on the company’s profit contribution, its ownership linkage to CGH, and the importance of its business operation to group’s overall business strategy. The company rating on CGS also reflects the company’s strong capital base and liquidity. The rating is, however, constrained by its declining profitability.

## KEY RATING CONSIDERATIONS

### A core subsidiary of Country Group Holdings Group

TRIS Rating views CGS as a core member of the CGH Group. In addition to being wholly-owned by CGH, CGS contributed an average of 19% of CGH’s net profits over the past two years, a significant contribution to the overall performance of CGH. Furthermore, CGS’s equity base constituted an average of 57% of CGH’s shareholder’s equity over the past two years, more than half of the consolidated group. CGS is also closely linked to CGH from the management point of view as its operations are influenced by the parent company through members of CGS’s board of directors representing CGH.

### Ample liquidity and strong capital base

CGS has ample liquidity and financial flexibility. The company’s ratio of liquid assets to total assets was 62.6% in 2017, way above the industry average of 33.5%. In addition, CGS has credit facilities support from several financial institutions as liquidity cushion to fund the company’s operations.

CGS has a strong capital base to support future business expansion, credit risk from its margin loans portfolio and market risk from its investment portfolio. CGS’s ratio of equity to adjusted assets was 76.5% in 2017, well above the industry average of 53.0%. The company’s total shareholder’s equity was Bt2,870 million at the end of 2017 with a net capital ratio (NCR) of 132%, compared with the regulatory requirement of 7%.

### Decrease in revenue

CGS has been in a transition period of shifting its business model from traditional brokerage products to more innovative products since 2016. However, the new products related to derivatives trading and instruments as well as investment banking fees have not yet delivered stable and sizable revenues.

CGS’s market share in securities brokerage trading volume decreased to 1.09% for the first seven months of 2018, from 1.69% in 2016 and 2.76% in 2015. This was partly because the company sold part of its retail brokerage business to another securities firm as part of the company’s new business strategy. The company has shifted its focus to derivative products, driving up its derivatives brokerage market share, in terms of trading volume, to 3.83% for the first seven months of 2018 from 1.53% in 2017. TRIS Rating expects that CGS’s market share in derivatives brokerage will continue to improve during the next few years.

### Declining profitability

CGS’s net profit has been on a decline since 2014. It dropped to Bt45.7 million

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in 2017 from Bt385 million in 2014. As the company has fewer product offerings compared with its peers, brokerage fees still remain the main revenue driver. Therefore, the continuous decline in the company’s trading volume coupled with a downward pressure on its commission rates resulted in CGS’s deteriorating profitability over time. CGS’s average securities brokerage commission rate decreased continuously to 10 basis points (bps) in 2017 from 15 bps in 2014. The company’s return on average assets was 1.0% in 2017, well below the industry average of 3.5%.

Looking forward, TRIS Rating expects CGS’s new business expansion plans to offer a wider range of products should enable the company to become less reliant on brokerage fees and gradually raise revenues to cover its high operating costs. The company’s ratio of operating expenses to net revenues was 76.7% in 2017, higher than the industry average of 63.5%.

**RATING OUTLOOK**

The “stable” outlook reflects our expectation that CGS will maintain its status as a core subsidiary of CGH and continue to contribute a significant portion of its net profit and equity to the group, and its financial performance will improve over the next few years.

**RATING SENSITIVITIES**

The rating and/or outlook of CGS could be revised upward or downward should there be any changes in CGH’s group credit profile or if there are any changes in CGS’s status relative to other subsidiaries or affiliates of the CGH Group.

**COMPANY OVERVIEW**

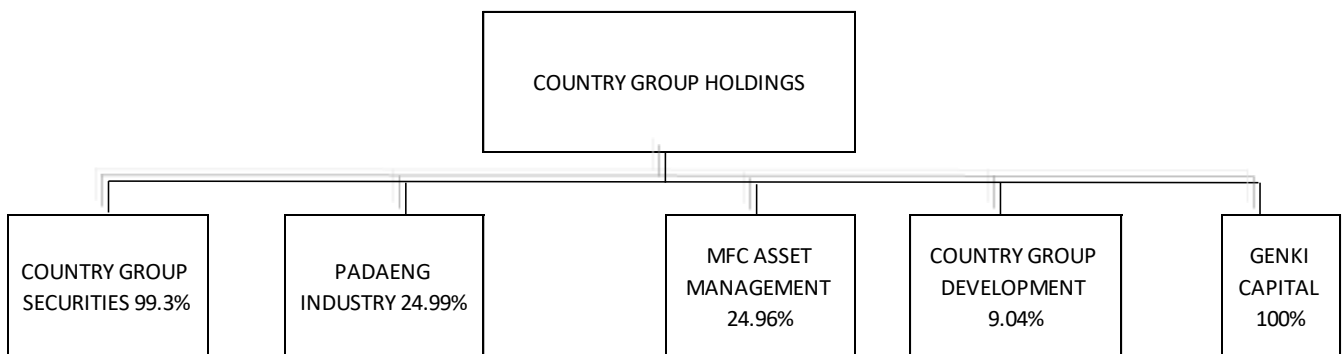
CGS has been granted licenses to offer a full range of services in the securities industry. As of June 2014, CGS employed 780 staff, spread across 46 branches throughout the country. The company was originally registered under the name “Adkinson Enterprise Co., Ltd.” in 1966. The company changed its name to “Adkinson Securities Co., Ltd.” in 1979, was converted to a public company in 1994, and became “Country Group Securities PLC” in 2009.

In 2006, there were significant changes in the shareholding structure of the company. The controlling shareholders changed from the Kewkacha family to the Taechaubol family. The Kewkacha family continues to hold some shares but has left the management of the company to the Taechaubol family. As of May 2014, the Taechaubol family held 18.3% of the company’s outstanding shares.

In 2014, Country Group Holdings PLC (CGH) was established as a holding company of CGS, and CGH made a tender offer for all shares of CGS effective on 8 January 2014.

In 2016, CGS sold some of its retail brokerage business to UOB Kay Hian Securities (Thailand) PLC. The company then received a permit from the Securities and Exchange Commission (SEC) to commence its private fund management business in June 2017.

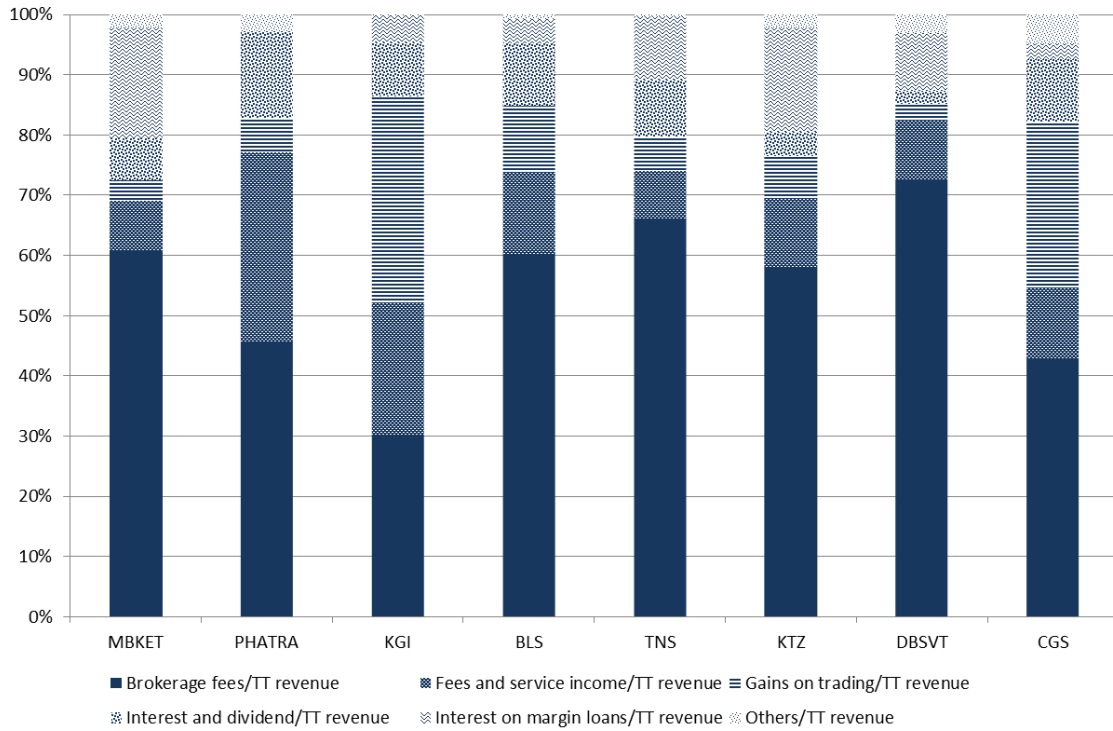
**Chart 1: CGH Group Structure as of Dec 2017**



Source: CGS

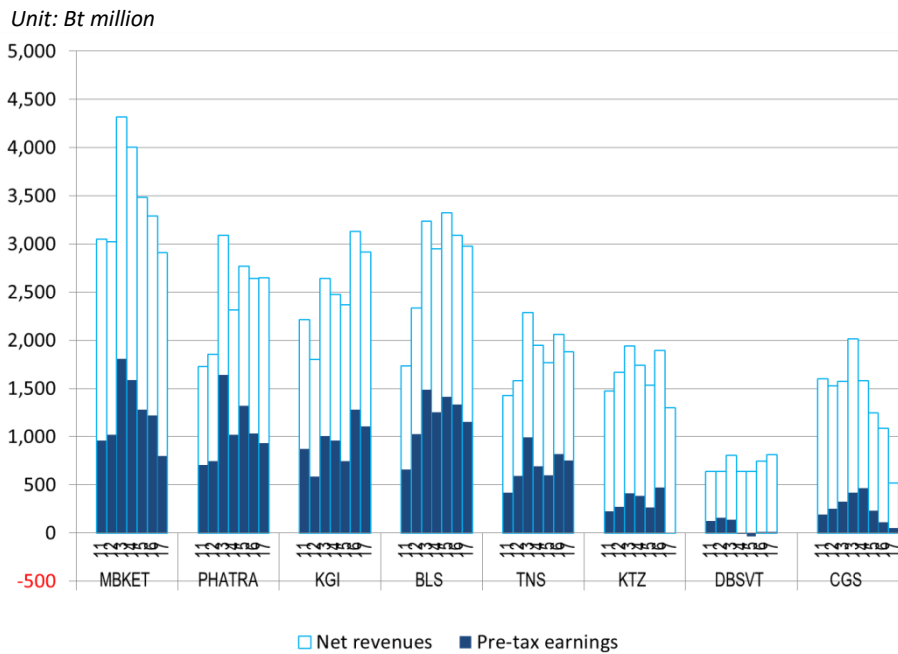
**KEY OPERING PERFORMANCE**

**Chart 2: Revenue Structures of Selected Brokers in 2017 (Jan-Dec)**



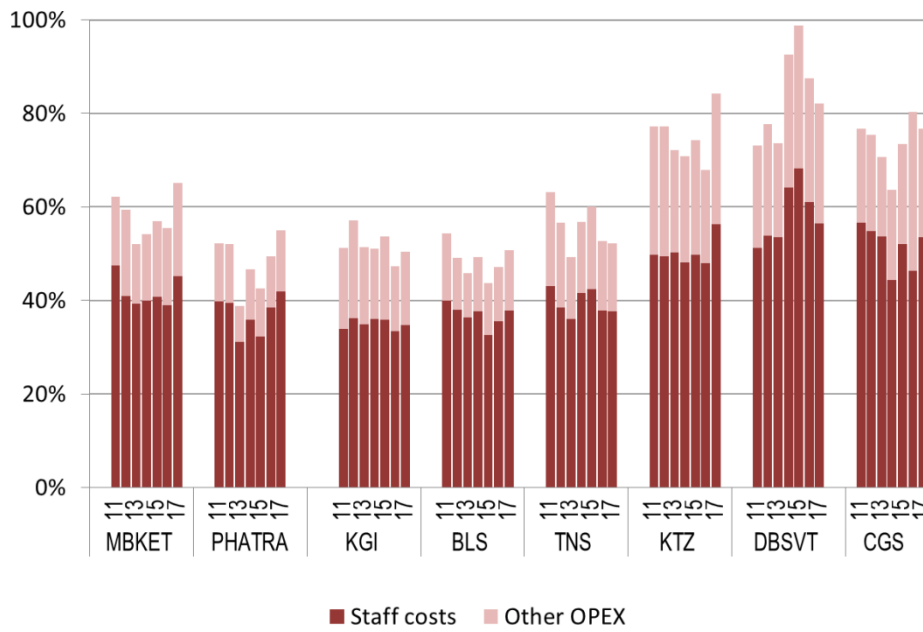
Sources: Financial statements of each company

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



Sources: Financial statements of each company

**Chart 4: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2017 (% of Net Revenues)**



Sources: Financial statements of each company

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

|  | Jan-Jun<br>2018 | ----- Year Ended 31 December ----- |       |       |       |
|--|-----------------|------------------------------------|-------|-------|-------|
|  |                 | 2017                               | 2016  | 2015  | 2014* |
| Total assets   | 5,647           | 4,524                              | 4,923 | 4,100 | 5,758 |
| Net Investment in securities   | 2,224           | 1,892                              | 1,519 | 462   | 1,245 |
| Total securities business receivables and accrued interest receivables | 1,345           | 1,170                              | 824   | 1,596 | 2,660 |
| Allowance for doubtful accounts  | 372             | 376                                | 365   | 352   | 356   |
| Total debts  | 199             | 144                                | -     | -     | -     |
| Shareholders' equity   | 2,843           | 2,870                              | 2,923 | 3,020 | 3,488 |
| Net securities business income   | 168             | 436                                | 675   | 1,028 | 1,175 |
| Total income   | 220             | 523                                | 1,096 | 1,282 | 1,600 |
| Operating expenses   | 198             | 396                                | 871   | 914   | 1,006 |
| Interest expenses  | 6               | 6                                  | 11    | 20    | 21    |
| Net income   | (13)            | 46                                 | 90    | 196   | 385   |

*Unit: %*

|   | Jan-Jun<br>2018 | ----- Year Ended 31 December ----- |      |       |       |
|---|-----------------|------------------------------------|------|-------|-------|
|   |                 | 2017                               | 2016 | 2015  | 2014* |
| <b>Profitability</b>  |                 |                                    |      |       |       |
| Brokerage fees/total revenues   | 65.4            | 42.4                               | 49.9 | 67.6  | 63.9  |
| Fees and services income/total revenues                               | 13.3            | 12.3                               | 7.4  | 4.9   | 4.0   |
| Gain (loss) from trading/total revenues                               | (8.2)           | 27.5                               | 6.4  | 9.2   | 6.4   |
| Operating expenses/net revenues                                       | 92.3            | 76.7                               | 80.3 | 72.5  | 63.7  |
| Pre-tax margin  | (8.4)           | 10.5                               | 10.4 | 19.8  | 29.4  |
| Return on average assets  | (0.3)           | 1.0                                | 2.0  | 4.0   | 7.3   |
| Return on average equity  | (0.5)           | 1.6                                | 3.0  | 6.0   | 11.2  |
| <b>Asset Quality</b>  |                 |                                    |      |       |       |
| Classified receivables/gross securities business receivables          | 29.5            | 33.9                               | 48.2 | 24.9  | 15.0  |
| Allowance for doubtful accounts/gross securities business receivables | 27.6            | 32.1                               | 44.3 | 22.1  | 13.4  |
| Credit costs (reversal)   | (0.3)           | 1.1                                | 1.0  | (0.2) | 0.1   |
| <b>Capitalization</b>   |                 |                                    |      |       |       |
| Equity/Adjusted assets  | 71.3            | 76.5                               | 77.0 | 90.4  | 85.1  |
| <b>Liquidity</b>  |                 |                                    |      |       |       |
| Liquid assets/total assets  | 53.4            | 62.6                               | 55.8 | 44.6  | 41.1  |
| Liquid assets/adjusted assets   | 75.6            | 75.5                               | 72.3 | 54.7  | 57.8  |
| Less liquid assets/long-term capital                                  | 26.1            | 23.0                               | 15.5 | 27.7  | 28.4  |

\* Based on financial statement in which equity method is applied

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**Country Group Securities PLC (CGS)**

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|------------------------|--------|
| <b>Company Rating:</b> | BBB-   |
| <b>Rating Outlook:</b> | Stable |

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**TRIS Rating Co., Ltd.**

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