

KGI SECURITIES (THAILAND) PLC

No. 22/2018

7 March 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
27/07/16	A-	Stable
18/06/08	BBB+	Stable
12/07/04	BBB	Stable
23/01/04	BBB	
26/11/01	BBB-	

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RATIONALE

TRIS Rating affirms the company rating of KGI Securities (Thailand) PLC (KGI) at "A-". At the same time, TRIS Rating assigns the rating of "A-" to the proposed issue of up to Bt2,000 million in senior unsecured debentures.

The ratings reflect greater stability in KGI's lines of business and its diversification efforts. In addition, the ratings reflect the explicit support KGI receives from its major shareholder in Taiwan, KGI Securities Co., Ltd. (KGI Group). These strengths yielded two major benefits. First, the strengths earned KGI a reputation as a leading creator of innovative products. KGI also earned a track record of gains from proprietary trading. The ratings are, however, constrained by the cyclical and volatile nature of the securities industry and the downward pressure on commission rates, a result of intensifying competition.

KGI's sources of revenue are diverse; it is not primarily reliant on brokerage fees. For the first six months of 2017, fees from securities and derivatives brokerage segment accounted for only 32% of total revenues, compared with an industry average of 61%. Fees from the securities and derivatives brokerage segment accounted for 30% of total revenues in 2017.

By diversifying into other lines of business, KGI has a stronger competitive position. The company is better equipped to handle the intensifying competition, a direct result of the full liberalization of brokerage fees.

Fees and service income, such as fund management fees, accounted for 25.2% of total revenues for the first six months of 2017, compared with an industry average of 13.2%. In addition, fund management fees are a source of revenue that is less volatile than brokerage fees. The ratio of fees and service income to total revenues was 22% in 2017. Gains on trading in securities and derivatives, which represented 34.5% of annual revenues in 2017, were derived from a variety of activities, including bond dealing, private repos, derivative warrants, over-the-counter derivatives, and investments made under the company's account.

KGI's market share, in terms of industry-wide securities brokerage trading volume, decreased from 3.87% in 2015 to 3.76% in 2016. The share for 2017 was 3.27%, ranked thirteenth in the industry. KGI's brokerage client base is mainly internet trading accounts, which charge low commission rates. As a result, KGI's average commission rate declined from 15 basis points in 2011 and 2012 to 10 basis points in 2017. Nonetheless, the company has a strong market position in the derivatives brokerage segment. KGI has been number one in terms of derivatives brokerage trading volume (TFEX) since 2013. Its market share in this segment was 12.12% in 2017. KGI pioneered DW in Thailand. Despite an increasing competition, KGI ranked second, based on DW trading volume market share, in 2017.

Its net profit in 2017 was Bt888 million, less than Bt1,024 million earned in 2016. The decline was mainly due to a decrease in securities and derivatives brokerage fees and less gains on trading. KGI has been able to keep its return on average assets (ROAA) higher than the industry average since 2015. Return on average assets (ROAA) based on non-annualized basis was at 2.37% for the first six months of 2017, higher than the industry average of 1.65% during the same period. KGI's ratio was 5.7% in 2017.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

KGI has sufficient liquidity and financial flexibility. As of 31 December 2017, the ratio of liquid assets to total assets was 54.2%. The company maintains a large portfolio of marketable securities as an investment. KGI also has lines of credit available, in the form of credit facilities granted by many financial institutions.

Despite solid liquidity and good returns on assets, equity to adjusted assets has declined recently. The ratio of equity to adjusted assets declined from 76.3% in 2015 to 55.4% in 2016, compared to the industry averages of 65% in 2015 and 60% in 2016. KGI's equity to adjusted assets ratio was 40.8% in 2017. Despite the recent drop, TRIS Rating believes that the amount of capital on hand will suffice to fund future expansion plans and absorb the expected risks. KGI's net capital ratio (NCR) has been strong. It stood at 42.79% at the end of 2017, higher than the regulatory minimum of 7%.

RATING OUTLOOK

The "stable" outlook for KGI is based on the expectation that the company will maintain its market position in the brokerage segment and continue to earn a stable stream of income from the non-brokerage segments, despite the volatile conditions in the Thai stock market. In addition, KGI is expected to maintain an adequate risk management system to oversee the risks in margin lending, proprietary trading, and the risks from other financial products.

RATING SENSITIVITIES

The credit upside is limited over the next 12-18 months. In contrast, downward pressure on the rating could develop if profitability weakens over time, if the company loses market share in the brokerage segment, or if it cannot continue to earn a stable stream of income from its asset management subsidiary.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	17,025	14,132	9,649	10,522	8,259
Net Investment in securities	8,622	5,581	2,308	3,826	1,894
Total securities business receivables and accrued interest receivables	7,051	5,561	5,508	5,346	4,564
Allowance for doubtful accounts	461	462	454	460	458
Total debts	6,486	3,718	465	1,387	168
Shareholders' equity	5,597	5,484	5,043	5,161	5,110
Net securities business income	2,556	2,766	1,996	2,213	2,360
Total revenue	3,058	3,246	2,482	2,584	2,759
Operating expenses	1,473	1,484	1,272	1,265	1,358
Interest expenses	141	113	112	109	114
Net income	888	1,024	588	762	784

Unit: %

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Profitability					
Brokerage fees/total revenues	30.0	32.2	38.6	42.0	45.0
Fees and services income/total revenues	22.0	20.6	22.7	15.7	16.0
Gain (loss) from trading/total revenues	34.5	35.9	23.3	28.2	25.8
Operating expenses/net revenues	50.5	47.4	53.7	51.1	51.4
Pre-tax margin	37.9	40.9	31.5	38.9	38.0
Return on average assets	5.7	8.6	5.8	8.1	7.6
Return on average equity	16.0	19.4	11.5	14.8	15.8
Asset Quality					
Classified receivables/gross securities business receivables	6.2	7.7	7.8	8.3	10.0
Allowance for doubtful accounts/gross securities business receivables	6.5	8.3	8.2	8.6	10.0
Credit costs (reversal)	(0.32)	0.13	(0.03)	(0.07)	(0.04)
Capitalization					
Equity/Adjusted assets	40.8	55.4	76.3	65.1	83.9
Liquidity					
Liquid assets/total assets	54.2	44.3	32.2	41.0	39.1
Liquid assets/adjusted assets	67.4	63.5	47.0	54.6	53.4
Less liquid assets/long-term capital	55.7	40.3	38.9	32.9	37.9

KGI SECURITIES (THAILAND) PLC (KGI)

Company Rating:	A-
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Issue Rating:

Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
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Rating Outlook:	Stable
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