

COUNTRY GROUP HOLDINGS PLC

No. 183/2024
15 October 2024

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 17/10/23

Company Rating History:

Date	Rating	Outlook/Alert
17/10/23	BBB-	Negative
22/10/18	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Country Group Holdings PLC (CGH) to “BB+” from “BBB-” and revises the outlook to “stable” from “negative”. The rating downgrade reflects our expectation that the company’s earnings position will continue to be pressured by operating expenses in the near term.

The weakening of the company’s earnings in recent years was primarily driven by an increase in operating expenses at CGH’s core operating subsidiary, Pi Securities PLC (Pi), coupled with a substantial upfront investment for the development of a financial application.

The rating continues to be supported by the company’s strong capital base, adequate funding and liquidity profile, and moderate business position.

KEY RATING CONSIDERATIONS

Subdued earnings

CGH's earnings performance has been more modest than anticipated. In our view, the company is facing challenges in managing operating costs, which could continue to impact its financial results in the coming year.

CGH’s earnings capacity, measured by earnings before taxes to average risk-weighted assets (EBT/ARWAs), weakened in 2023. This was attributed to lower market trading volumes and significantly higher operating expenses related to the development of the new Pi Financial application. The ratio dropped to -0.7% from -0.2% in 2022. Excluding one-time gain in 2023 from asset disposals of its affiliate, Bound and Beyond PLC (BEYOND, rated “BB/Alert Negative”), the EBT/ARWAs would have been -0.9%.

In the first half of 2024, EBT/ARWAs, excluding one-time investment gains from the revaluation of Cryptomind Group Holdings Co.,Ltd., improved to 0.2%, largely due to a sharp rise in gains from digital assets.

In 2024, we project CGH’s EBT/ARWAs to recover moderately to 0.1%. However, this includes a few items of additional one-time gains. If these are excluded, EBT/ARWA would be -0.4%. This reflects the still-high operating costs at Pi. Nonetheless, we anticipate a gradual improvement in earnings, with EBT/ARWAs turning positive from 2026 onward. This is based on our expectation of cost rationalization following the launch of the application launch and improvements in revenues from the securities brokerage and wealth businesses.

Strong capital

We continue to assess CGH's capital position as strong. CGH has maintained a robust capital position, as evidenced by its risk-adjusted capital (RAC) ratio of approximately 18%, based on a five-year average (2022-2026). We project a gradual improvement in profitability, with CGH's conservative dividend policy likely to bolster its capital strength in the foreseeable future. However, if there is a further substantial rise in investments resulting in significantly higher financial leverage, it could potentially impact our capital assessment and the overall rating.

Adequate funding and liquidity profile

CGH's funding and liquidity position remains adequate. Its core subsidiary, Pi, has secured credit lines from various banks to support its liquidity needs amounting to THB1.6 billion, with 63% available as of the end of June 2024. Conversely, CGH had outstanding debentures totaling THB503 million as of June 2024. CGH, as a listed company, benefits from access to both equity and debt capital markets, which enhances its financial flexibility. Besides CGH's investment portfolio can serve as an additional source of liquidity if required.

Securities brokerage remains the core business of the group

On a consolidated basis, CGH primarily relies on Pi's brokerage revenue, which typically accounts for approximately 90% of its total revenue. This heavy reliance on brokerage revenue exposes both CGH and Pi to capital market volatility. Although the gains recognized in 1H24 from sales of digital assets and the revaluation of CGH's investment in Cryptomind (after the completion of its Series A fundraising) provided additional revenue streams, we view these as non-core revenues.

For Pi, brokerage revenue constituted 66% of its total revenue in the first half of 2024, notably higher than the industry average of 41%. Conversely, fees and service income remained modest, comprising only 8% of total revenue, compared with the industry average of 18%.

Following Pi's strategic fundraising in January 2024, which resulted in a THB 349 million investment from the Koo Family Group, CGH's ownership stake in Pi has declined, falling to 90.98% in June 2024 from 99.32% in June 2023. Nevertheless, Pi remains CGH's core operating subsidiary. Moving forward, we anticipate that Pi will continue to contribute a significant proportion of CGH's total revenue, as the company concentrates on businesses under its direct control while maintaining Pi as its primary subsidiary.

In the third quarter of 2024, CGH disposed of its entire 24.96% shareholding (31.36 million shares) in MFC Asset Management PLC (MFC) to OPUS Chartered Issuances S.A. (OPUS), a foreign fund. CGH plans to use the proceeds for new investments and debt repayment. We anticipate that CGH will realize a one-time investment gain of THB108 million from this transaction.

During 1H24, CGH reported share gains of THB27 million from its associated companies, BEYOND and MFC, with MFC being the main source of these gains. We expect BEYOND's contribution to strengthen over the next 12-24 months, in line with the ongoing recovery in the tourism sector.

High-risk investments subject to vulnerability

We assess Pi's credit risk as acceptable, supported by its prudent credit underwriting criteria and strict margin maintenance in both equity margin lending and derivatives trading. This is highlighted by its low credit cost of 0.2% in 1H24, compared with the industry average of 2.0%.

However, CGH faces diverse risks associated with its investment activities. These include market risk from its principal trading operations in fixed-income instruments, equities, and digital assets. Additionally, CGH is subject to dividend income risk stemming from its substantial investments in various companies, some of which generate unpredictable dividend cash flows. A notable example is CGH's THB528million investment in technology companies and digital assets through Pi Ventures Co.,Ltd. While this represents only 10% of equity, it carries potential downside risks due to the volatile nature of digital assets.

As of June 2024, CGH's financial investment portfolio was valued at THB 2.2 billion, showing minimal change from THB 2.3 billion at the end of June 2023.

Pi's market share supports CGH's business position

CGH's moderate business position is underpinned by the stable market share in securities brokerage of its core operating entity, Pi. Pi has maintained its revenue market share in the securities brokerage business and has gained a leading position in the derivatives brokerage sector since 2019.

The company's securities brokerage revenue market share remained steady at 2.6% in 2023, similar to 2022. However, it increased to 3.1% in 1H24, primarily due to a stronger share of the retail market which accounts for approximately 95% of Pi's total turnover. This improvement comes despite a sharp decline in the market volume of retail brokerage. Given the significant decrease in overall market turnover in 2023 and 1H24 particularly in the retail segment, Pi's brokerage revenue declined by 14% year-on-year (y-o-y) in 2023 and 19% y-o-y in 1H24.

In the derivatives brokerage segment, Pi's revenue market share in 1H24 was 17.8%, down slightly from 18.0% in 2023 and the peak of 18.4% in 1H23, primarily due to a decrease in the volume of derivatives contracts.

Pi is targeting a larger retail client base at a lower cost through its newly launched "Pi Financial", a comprehensive investment platform. Pi Financial offers Thai equity, derivatives, mutual funds, and global equity trading, with plans to expand this to

include non-financial assets in the future. Additionally, Pi has launched “Pi Private Wealth”, which currently manages USD588 million in assets under management (AUM) and employs over 50 experienced relationship managers (RMs) to cater to high net worth (HNW) clients.

To further enhance its trading tools, CGH recently acquired 51.20% of “Top Trader”, a trading platform service provider covering local equity and Thailand Futures Exchange (TFEX). We believe that Pi’s enhanced market presence and service offerings in the securities brokerage business will continue to strengthen CGH’s overall business position.

BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for CGH’s operations in 2024-2026 are as follows:

- Pi’s market share by securities trading value to be around 2.0%-2.5%
- Pi’s average commission rate to be approximately 7-9 basis points (bps).
- CGH’s ratio of operating expenses to net revenue to be around 115% in 2024 declining to 90% in 2026.
- CGH’s investment in associated companies to total around THB2.3 billion.

RATING OUTLOOK

The stable outlook reflects our expectation that Pi, as the core operating subsidiary of CGH, will maintain its market position in the securities business and gradually improve its financial performance. The outlook is also based on the expectation that CGH will maintain its strong capital level.

RATING SENSITIVITIES

CGH’s credit upside would materialize if the market position of Pi across broad business lines strengthens materially for an extended period while its earnings capacity improves steadily. A rating upside scenario may also arise if CGH’s future investments bring about concrete diversification of its revenue sources without adding incremental risks.

On the contrary, the rating and/or outlook could be revised downward if there is a prolonged deterioration in CGH’s earnings with EBT/RWAs falling significantly below our baseline projections leading to a weaker capital position.

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 part of a restructuring plan of Country Group Securities PLC or CGS (recently rebranded as Pi Securities PLC). CGH made an offer to purchase all the securities of CGS at an 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 was then listed on the Stock Exchange of Thailand (SET) in place of CGS 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 Country Group Development PLC (CGD). Investments in CGH’s affiliated companies totaled THB1.68 billion in 2017, of which 31.5% was in MFC and 68.5% in PDI.

In 2015, CGH increased its paid-up capital to THB4.34 billion from THB2.57 billion at an allocation ratio of one existing ordinary share per one ordinary share at THB1.30 per share. During the same year, the company acquired additional stakes in PDI for a total stake of 20.70%, resulting in PDI becoming an associated company of CGH. CGH then established Genki Power Co., Ltd. with capital of THB100 million on 1 February 2016.

In 2016, CGH increased its shareholding in PDI to 24.9% of PDI’s paid-up registered capital. In 2017, CGH had total registered capital of THB6,075,927,916 and total paid-up capital of THB4,336,768,278. On 17 May 2017, the company changed the registered company name of Genki Power to Genki Capital.

In July 2021, CGH increased its stake in PDI to 39% from 25% via a rights offering with an investment totaling THB565 million. In October of the same year, PDI was rebranded as Bound and Beyond (trading symbol: BEYOND).

In February 2022, CGS was rebranded as Pi Securities PLC (Pi). Later in the year, CGH established Pi Ventures Co., Ltd with registered capital of THB5 million. This later increased to THB129 million with a plan to further increase registered capital to THB500 million for investment in cryptocurrency projects and digital technology, or other businesses with strong potential. CGH also invested an additional THB15 million in Cryptomind Group Holdings which resulted in an increase in the shareholding from 12.5% to 25.0%. In addition, CGH founded Pi Digital Co.,Ltd with registered capital of THB 5million with a plan to increase registered capital to THB100million to operate as a digital asset brokerage for the trading or exchange of digital assets.

In 1H23, Genki Power One Co., Ltd. was renamed Pi Pinnacle Assets Co., Ltd. and its business transformed as a real estate agent offering diverse range of financial products, including residential and investment property transactions. CGH also transformed Genki Capital Co., Ltd. to Pi Capital Solutions Co., Ltd. to operate in the lending business.

In January 2024, CGH's shareholding in Pi was reduced to 90.9% of total shares following Pi's strategic fundraising, which secured THB 349 million from the Koo Family Group. The Koo family, based in Taiwan, operates a pan-Asian conglomerate with diverse interests in banking, insurance, real estate, hospitality, sports, and equity investments across Taiwan, the USA, Japan, China, and Southeast Asia. Their flagship company is CTBC Financial Holdings.

In September 2024, CGH sold 24.96% of its shareholding, or 31.36 million shares, in MFC Asset Management PLC to OPUS at THB 25 per share. Additionally, CGH invested in Top Trader Co., Ltd., a trading platform service provider focused on local equity and TFEX, by acquiring 725,666 ordinary shares, representing 51.20% of the total shares, for a purchase price of THB 60 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	9,656	9,244	9,007	9,155	9,349
Net Investment in securities	2,156	1,946	2,257	2,244	3,724
Total securities business receivables and accrued interest receivables	2,228	1,960	1,884	2,175	2,459
Allowance for doubtful accounts	377	374	384	409	409
Total debts	1,103	1,448	1,303	1,171	1,101
Shareholders' equity	6,140	5,929	5,769	6,014	5,300
Net securities business income	739	984	1,090	1,318	962
Total income	916	1,407	1,485	2,414	1,418
Operating expenses	693	1,327	1,163	1,167	867
Interest expenses	66	125	124	119	131
Net income*	(7)	(274)	(186)	195	143

* Excluding one-time items

Unit: %

	Jan-Jun 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Profitability					
Brokerage fees/total revenues	43.4	68.0	79.2	55.4	70.5
Fees and services income/total revenues	4.9	6.3	6.6	4.9	5.1
Gain (loss) from trading/total revenues	31.8	4.1	4.0	4.5	3.1
Operating expenses/net revenues	73.6	97.5	85.4	50.8	67.4
Pre-tax margin	13.3	(17.5)	(4.9)	36.4	11.1
Return on average assets**	(0.1)*	(2.1)	(2.0)	2.1	1.6
Earning before tax/risk-weighted assets**	0.2 *	(0.9)	(0.4)	0.8	0.4
Asset Quality					
Classified receivables/gross securities business receivables	17.9	20.2	21.6	19.8	17.5
Allowance for doubtful accounts/gross securities business receivables	16.9	19.1	20.4	18.8	16.6
Credit costs (reversal)	0.1 *	0.3	(0.2)	0.4	2.2
Capitalization					
Leverage ratio	67.1	69.8	70.2	66.1	61.3
Risk-adjusted capital	17.3	17.8	17.7	16.6	18.2
Funding and Liquidity					
Gross stable funding ratio	98.7	107.9	120.0	115.4	124.2
Liquidity coverage metric	1.1	1.3	1.8	1.6	1.6

* Annualized

** Excluding one-time items

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022

Country Group Holdings PLC (CGH)

Company Rating:

BB+

Rating Outlook:

Stable

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