

THANACHART CAPITAL PLC

No. 4/2018
14 March 2019

FINANCIAL INSTITUTIONS

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
CreditAlert:	Negative

Last Review Date: 11/10/18

Company Rating History:

Date	Rating	Outlook/Alert
16/01/12	A+	Stable
12/03/10	A	Positive
14/07/05	A	Stable

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RATIONALE

TRIS Rating places CreditAlert with a “negative” implication on the company rating currently assigned to Thanachart Capital PLC (TCAP) at “A+” and the ratings on TCAP’s senior unsecured debentures at “A+”. The CreditAlert follows the signing of non-binding memorandum of understanding (MOU) by five parties including: TMB Bank PLC (TMB), Thanachart Bank PLC (TBANK), TCAP, ING Groep N.V. (ING), and Bank of Nova Scotia (BNS) on 26 February 2019 to proceed with a merger between TMB and TBANK.

We note that at this point the transaction remains uncertain and subject to the precedent conditions specified in the SET disclosure. The due diligence process will span over the next few months. The transaction remains to be approved by relevant regulators, including the Ministry of Finance (MOF), the Bank of Thailand, and the Securities and Exchange Commission, as well as the shareholders of both banks. If the transaction is approved, the entire process is expected to be completed by end-2019.

TRIS Rating views the transaction as a positive move as the banks, once merged, would result in substantial improvement in market position and increased systemic importance. We expect the merger would help to create synergy both in terms of asset and funding. We expect TCAP to realize gain on sale of its 51% holding in TBANK, which would help to improve its capital position when the transaction is completed.

We note that the company and issue ratings of TCAP remain unchanged as of this CreditAlert announcement. However, based on our rating methodology, we place the “negative” CreditAlert on TCAP as TCAP’s ratings could be downgraded or remain unchanged from the current level due to potential change in TCAP’s shareholding in TBANK. The future rating action will depend on the shareholding structure of TCAP and related entities and/or the future cash flow generated from the combined bank and other core subsidiaries.

TRIS Rating expects to resolve the CreditAlert upon completion of the transaction or when available data is sufficient to enable us to make in-depth analysis and conclusion on the ratings of TCAP.

Details of transaction

According to the announced plan, the merger focuses on TBANK’s banking business. TBANK is required to divest its holding in most of its subsidiaries and other investments to TBANK’s shareholders based on respective shareholding (TCAP 51%; BNS 49%). The subsidiaries to be divested include mainly Thanachart Securities PLC (TNS; 100% owned), Ratchathani Leasing PLC (THANI; 65%), Thanachart Insurance Co., Ltd. (TNI; 100%), and TS Asset Management Co., Ltd. (TS AMC; 100%).

TMB estimates the total consideration at about Bt130-Bt140 billion. The transaction will be 70% equity-funded and 30% debt-funded (part of this may come from TMB’s excess liquidity). The equity financing will derive from new share offering, comprising: 1) a rights offering to TMB’s existing shareholders (Bt40-Bt45 billion); and 2) share offering to TCAP and BNS at 1.1 times TMB’s book value post-recapitalization (Bt50-Bt55 billion).

If the merger is successful, ING and TCAP are expected to hold more than 20% each in the combined bank, while the MOF is expected to hold less than 20%. BNS is likely to hold a minimal stake in the new bank. THANI and TNS will become the subsidiaries of TCAP.

RELATED CRITERIA

- Commercial Banks, 30 March 2017
- Group Rating Methodology, 10 July 2015

Thanachart Capital PLC (TCAP)

Company Rating:	A+
Issue Ratings:	
TCAP22NA: Bt3,000 million senior unsecured debentures due 2022	A+
TCAP238A: Bt500 million senior unsecured debentures due 2023	A+
TCAP258A: Bt900 million senior unsecured debentures due 2025	A+
TCAP230A: Bt1,300 million senior unsecured debentures due 2023	A+
TCAP20NA: Bt2,900 million senior unsecured debentures due 2020	A+
CREDITALERT:	Negative

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