

DBS VICKERS SECURITIES (THAILAND) CO., LTD.

No. 88/2018
28 June 2018

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
15/07/16	AA-	Stable
22/03/11	A-	Stable
15/12/09	A-	Negative
17/10/06	A-	Stable

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RATIONALE

TRIS Rating upgrades the company rating of DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT) to “AAA” from “AA-” with a “stable” outlook. The rating reflects DBSVT’s status as a highly strategic subsidiary of the Singapore-based DBS Group, a strong operational integration of DBSVT into the DBS Group, and the long proven track record of the group support. S&P Global Ratings rates DBS Bank, the sole operating subsidiary of the DBS Group, at “AA-” with a “stable” outlook.

DBSVT’s stand-alone rating is underpinned by DBSVT’s improved market position in securities business, its limited exposure to market risk and credit risk, and its adequate liquidity and capital base. The rating also takes into account its higher-than-peers operating expense to net revenue ratio and potential earnings volatility due to competitive and cyclical nature of securities brokerage business.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of the DBS Group

TRIS Rating views DBSVT as a highly strategic subsidiary of the DBS Group. DBSVT is a wholly-owned subsidiary of DBS Vickers Securities Holding Pte (DBSVH), the securities arm of the DBS Group based in Singapore. Apart from receiving credit facilities from the DBS Group, DBSVT operates as an integral part of the DBS Group, sharing the group’s strategies and financial targets. Its operations and risk management are also controlled by the DBS Group.

DBSVT also serves clients of the DBS Group and affiliated companies by providing research, brokerage, and other services. Over the past two years, more than 70.0% of DBSVT’s securities brokerage trading volume has been originated from the client base of affiliated companies within the DBS Group.

Sufficient liquidity and capital base

DBSVT’s liquidity and financial flexibility remain sufficient. The ratio of liquid assets to total assets was 15.7% at the end of December 2017. Although the ratio is lower than peer average of 33.9%, it is viewed sufficient. Financial flexibility is assessed based on the credit line from its parent and plenty of credit facilities from several local financial institutions. The credit facilities are adequate to fund its current operations and for liquidity protection.

DBSVT’s equity base of Bt1,046 million is also sufficient to cushion against the credit risk from the company’s margin loans portfolio. As of December 2017, equity to adjusted assets was 41.0%. The ratio is lower than the industry average of 52.9% but is adequate when justified by the contingent support from its parent. DBSVT’s net capital ratio (NCR) stood at 37.0% at the end of 2017, higher than the minimum regulatory requirement of 7.0%.

Improving market position in securities brokerage

DBSVT’s overall market share of securities brokerage trading value increased steadily from 2.6% in 2015 (ranked 20th) to 4.2% in 2016 (ranked 6th) and 6.5% in 2017 (ranked 2nd). At the end of April 2018, the company moved to the top position with 6.6% market share. The improved market share was mainly driven by an increase in trading volume of foreign investors, in which the company has a strong market position. Its market share by trading value of foreign investors increased significantly from 6.0% in 2015 to 11.5% in 2016 and 16.9% in 2017.

However, due to the lower commission rates charged for foreign investors, the increased trading volume has not had the same degree of positive impact on revenue. DBSVT's revenue shares of securities brokerage increased at slower rates, from 1.7% in 2015 to 2.0% in 2016 and 2.4% in 2017. Most trading transactions in the foreign investors segment are executed through the Direct Market Access (DMA) system at lower commission rates than traditional orders.

Limited exposure to market risk and credit risk

DBSVT's exposure to market risk is limited as the company does not engage in speculative proprietary trading, in accordance with the Group's risk management policy. The company also has a policy to hedge its positions associated with structured products. As for its credit risk exposure, DBSVT's outstanding margin loans stood at Bt1.3 billion at the end of December 2017, equivalent to 1.3 times of its equity, representing a modest share of 1.9% of the industry-wide margin lending. TRIS Rating holds the view that DBSVT has adequate risk management to control the credit risk of its margin loan portfolio.

Potentially volatile net profits

Heavy reliance on brokerage fees makes the company's revenues vulnerable to the cyclicity of securities trading volume and the continued trend of compressed brokerage commission rates. Revenues from securities and derivatives brokerage accounted for 73.0% of DBSVT's total revenues in 2017, higher than the industry average of 60.0%. Contributions from fee and services income that tend to help mitigate earnings volatility also remained small, at 9.7% of total revenues in 2017, compared with the industry average of 15.0%. A decrease in the market trading volume could therefore negatively affect DBSVT's net profit as seen in 2014 and 2015 when an 11%-12% decrease in the market trading volume caused the company to incur net losses.

High operating costs to net revenues pressures profitability

DBSVT also has a higher ratio of operating expense to net revenues than peers. The ratio was 82.1% in 2017 for DBSVT, compared with the industry average of 63.1%. DBSVT's high operating costs were driven mainly by its information technology (IT) and personnel expenses. The high operating expenses means profitability improvement could be a challenge for DBSVT amid intense competition and market volatility. This has resulted in a lower return on average asset (ROAA) of 0.2% in 2017, compared with the industry average of 3.6%.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation that DBSVT will remain a highly strategic subsidiary of the DBS Group and continue to operate as an integral part of the DBS Group's securities business in Asia.

RATING SENSITIVITIES

DBSVT's rating is at the highest level at "AAA" with "stable" outlook. The rating and outlook could be revised downward if the rating of DBS Bank was revised downward. Any changes in the Group's structure and strategy such that DBSVT does not remain as a highly strategic subsidiary of the Group could also negatively impact the rating or outlook.

COMPANY OVERVIEW

DBSVT was established on 18 November 1996 under the name "Nava Securities Co., Ltd." with initial registered capital of Bt1,000 million. The company was granted business licenses covering securities brokerage, securities trading, securities underwriting, and investment advisory by the Ministry of Finance (MOF) in early November 1997.

On 17 November 1997, the company received an accounting balance (assets and liabilities) transfer, at the net asset value of Bt354 million, from Nava Finance and Securities PLC. The transfer was made to comply with a government regulation dictating the separation of securities firms and finance companies.

In 1998, Vickers Ballas Holdings Ltd. (VBHL), a Singaporean firm, acquired a 49% stake (57.502 million shares) in Nava Securities. Nava Securities was renamed Nava Vickers Ballas Securities Co., Ltd. in May 1998. In January 2000, VBHL acquired an additional 59.849 million shares (51% of the total registered shares) of the company from Bank Thai PLC, raising its stake to 99.99%. The company then changed its name to Vickers Ballas Securities (Thailand) Co., Ltd. (VBST) in early February 2001.

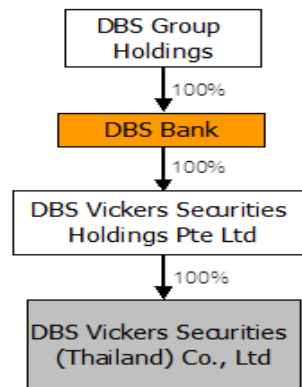
On 13 February 2001, DBS Group Holdings Ltd. (DBSH) took over VBHL in Singapore. The deal was completed through a subsidiary of DBSH, The Development Bank of Singapore Ltd. After DBSH acquired a 100% stake in VBHL, VBST was renamed DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT), and began full operation in October 2001.

In August 2005, DBSVT received approval from the Securities and Exchange Commission (SEC) to act as a derivatives agent and to execute derivatives transactions on behalf of clients on the derivatives exchange. This business started on 28 April

2006 with the launch of the Thailand Futures Exchange (TFEX).

During 2012-2014, DBSVT launched several new products and services to facilitate its customers' online trading transactions and to provide them with research and market information. The new products and services included DBSV's overseas trading services for smart phone users, Online KYC, eStatement, and its Point Redemption System via www.dbsvtrade.com. DBSVT also launched BrainBox, a new investing tool for clients. BrainBox provides both fundamental and technical analysis to investors.

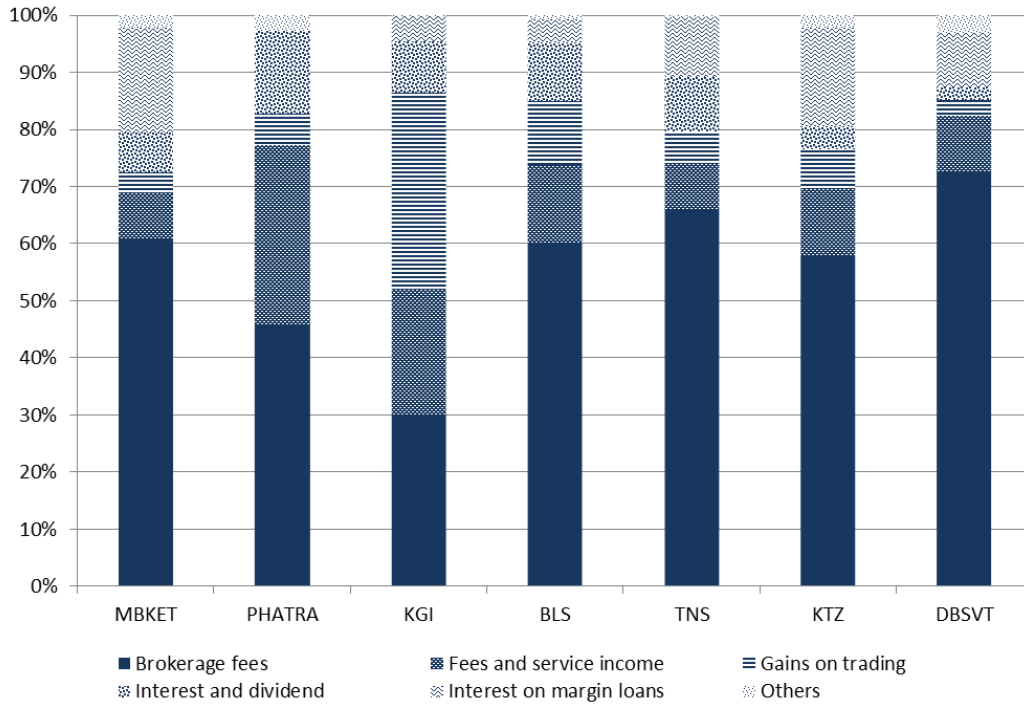
DBSVT Group Structure



Source: DBSVT

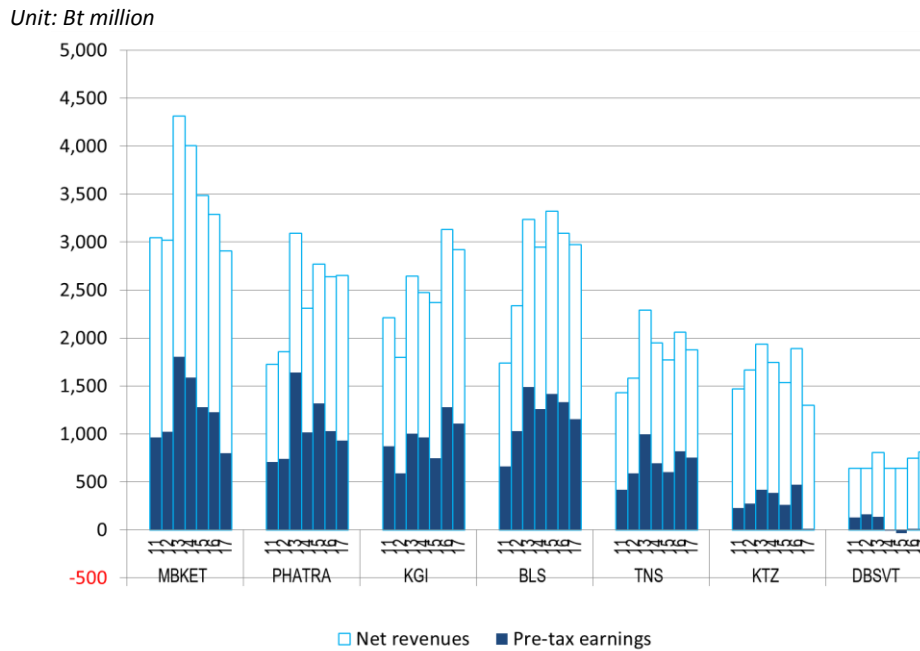
KEY OPERATING PERFORMANCE

Chart 1: Revenue Structures of Securities Companies in 2017



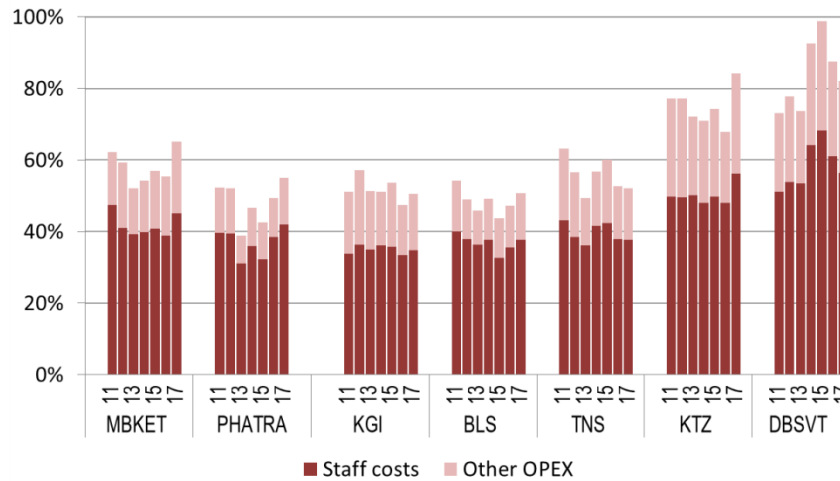
Sources: Financial statements of each company

Chart 2: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2017



Sources: Financial statements of each company

Chart 3: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2017 (% of Net Revenues)



Sources: Financial statements of each company

Notes: MBKET = Maybank Kim Eng Securities Thailand PLC
 PHATRA = Phatra Securities PLC
 KGI = KGI Securities (Thailand) PLC
 BLS = Bualuang Securities PLC
 TNS = Thanachart Securities PLC
 KTZ = KT ZMICO Securities Co., Ltd.
 DBSVT = DBS Vickers Securities (Thailand) Co., Ltd.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	-----Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	4,064	4,621	2,984	2,758	3,857
Net Investment in securities	54	67	21	8	13
Total securities business receivables and accrued interest receivables	3,028	4,391	2,476	2,573	3,737
Allowance for doubtful accounts	137	411	415	429	433
Total debts*	959	1,123	1,147	979	1,229
Shareholders' equity	1,046	1,048	1,040	1,067	1,069
Net securities business income	666	646	567	581	736
Total income	846	781	696	685	857
Operating expenses	669	653	631	593	593
Interest expenses	32	35	57	44	52
Net income	9	8	(28)	(3)	108

** Including structured notes*
Unit: %

	-----Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Profitability					
Brokerage fees/total revenues	72.7	73.9	67.7	74.4	81.6
Fees and services income/total revenues	9.7	8.1	8.3	6.3	3.4
Gain (loss) from trading/total revenues	2.8	1.5	0.2	(0.7)	(1.0)
Operating expenses/net revenues	82.1	87.6	98.8	92.5	73.7
Pre-tax margin	1.5	1.2	(5.3)	(0.5)	16.8
Return on average assets	0.2	0.2	(1.0)	(0.1)	3.2
Return on average equity	0.8	0.8	(2.6)	(0.2)	10.1
Asset Quality					
Classified receivables/gross securities business receivables	4.8	9.8	17.4	16.7	11.6
Allowance for doubtful accounts/gross securities business receivables	4.5	9.4	16.8	16.7	11.6
Credit costs (reversal)	0.3	(0.1)	(0.5)	(0.1)	0.4
Capitalization					
Equity/Adjusted assets	41.0	42.8	43.8	46.8	42.2
Liquidity					
Liquid assets/total assets	15.7	8.9	10.1	12.2	7.0
Liquid assets/adjusted assets	22.5	16.7	10.9	14.3	10.3
Less liquid assets/long-term capital	136.8	178.3	182.9	169.8	200.8

DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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