

TSFC SECURITIES PLC

No. 152/2016

19 December 2016

Company Rating: BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
05/11/15	BBB-	Stable
04/12/14	BB+	Positive
26/10/12	BB+	Stable
15/08/12	BB+	Alert Developing
04/02/11	BB+	Positive
28/07/09	BB	Stable
17/12/08	D	
16/12/08	C	Alert Negative
28/11/08	BB-	Alert Negative
07/11/08	BBB-	Alert Negative
04/04/05	A	Stable
12/07/04	A-	Positive
09/05/02	A-	

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Rating Rationale

TRIS Rating affirms the company rating of TSFC Securities PLC (TSFC) at “BBB-”. The rating reflects TSFC’s strengthened capital base, steady profits, improved financial flexibility, continual improvements in its internal credit risk management system, and the financial support its receives from its largest shareholder, the Stock Exchange of Thailand (SET). However, the rating is constrained by two factors: increasing competition in its main line of business, margin loans, and the high volatility in the Thai stock market. The rating takes into consideration the company’s strategic decision to become a short-term liquidity provider to securities companies. The success of the new endeavor has yet to be proved.

TSFC raised new equity capital in July 2014, strengthening its equity base, via a private placement with its major shareholders, the SET, the Ministry of Finance (MOF), and the Government Savings Bank (GSB). Shareholders’ equity increased from Bt1,016 million to Bt1,549 million. The SET is the largest shareholder, owning a 40.65% stake, followed by the MOF (10.56%) and GSB (9.5%). The other shareholders are commercial banks (11.89%), securities companies (10.9%), asset management funds (9.7%), insurance companies (2.82%), and others (0.03%). The ratio of shareholders’ equity to total assets strengthened from 29.3% in 2009, 57.21% in 2014, to 54.5% as of September 2016.

TSFC was badly hit by the financial crisis in 2008, due to net unrealized losses from investments in securities held for trading. Despite the completion of a restructuring in April 2009, TSFC’s business and financial profile has not rebounded as expected, due to greater competition in the margin loan segment. The company has faced challenges in its core business for two main reasons: changing market conditions, and the competitive response to TSFC’s re-entry into margin lending. From 2010 to June 2016, other securities brokers have rapidly expanded their margin loan portfolios. The total amount of outstanding margin loans industry-wide grew to Bt54.7 billion as of June 2016, from Bt16 billion in 2009. The financial crisis in 2008 slashed TSFC’s margin loan portfolio from Bt6,377 million in September 2008 to Bt2,123 million in September 2016. TSFC’s market share plummeted because its funding cost was higher than its competitors. Its market share nosedived from 24% in September 2008 to 4% in September 2016. As of September 2016, total assets were Bt2,977 million, of which 78% was net margin loan receivables (Bt2,317 million).

TSFC has been offering loans to securities companies since 2014, a product it used to offer. These types of loans affirm TSFC’s mission to act as a liquidity provider to securities companies. As of September 2016, TSFC’s outstanding loans to securities companies amounted to Bt445.5 million. However, the new type of loan poses some risk management challenges. In addition, TSFC has a short track record in this segment.

After the capital injection in July 2014, TSFC has been able to reduce its funding cost by seeking new long-term credit lines to refinance the high-cost borrowings. The company now has better financial flexibility and a competitive funding cost. TSFC’s funding cost has been reduced from 6.38% in 2013 and 5.81% in 2014 to 4.57% in 2015. TSFC’s funding cost was 2.84% (annualized) for the first nine months of 2016. As of September 2016, the company had a total of Bt6.7 billion in credit facilities made available from several local financial institutions.

TSFC's financial profile has recovered since 2013. The stronger capital base will support its plan to expand. Net profit increased to Bt25 million in 2013, Bt41 million in 2014, and Bt57 million in 2015. TSFC reported net profit of Bt34 million for the first nine months of 2016.

In terms of asset quality, since 2013, TSFC developed and implemented more stringent criteria for granting margin loans. The new criteria reflect the different risk levels of the stocks pledged as collateral. The new criteria also limit TSFC's exposure to loan concentration risk. TRIS Rating expects that TSFC will be able to control the credit risk of the margin loans by strictly enforcing margin calls and forced sales, and by maintaining the stringent criteria on collateral and for underwriting.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that TSFC's financial performance and market share in margin lending will continue at the current levels. In addition, TRIS Rating expects the new product, providing liquidity to securities companies, will generate additional income as planned and TSFC will continue to receive support from the SET, its major shareholder.

The rating and/or outlook of TSFC could be negatively impacted if intense competition or stock market volatility causes performance to deteriorate significantly. In addition, if the structure of assets and liabilities widens beyond the current level, the widened gap would be a negative factor for the rating. In contrast, a substantial improvement in the business profile would be a boost for the rating.

TSFC Securities PLC (TSFC)

Company Rating:

BBB-

Rating Outlook:

Stable

Financial Statistics

Unit: Bt million

	Jan-Sep 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Total assets	2,977	2,919	2,885	2,994	3,360	3,092
Net Investment in securities	142	113	3	235	269	863
Loans and receivables	3,114	3,145	3,213	2,966	3,405	2,463
Allowance for doubtful accounts	352	416	415	307	394	394
Total borrowings	1,108	1,143	1,158	1,729	1,990	1,600
Shareholders' equity	1,622	1,666	1,633	1,167	1,142	1,151
Net interest and dividend income	110	172	152	138	105	113
Bad debts and doubtful accounts	0.4	3	(1)	(0.1)	(0.3)	(1)
Non-interest income	1.3	1	2	2	2	10
Operating expenses	68	113	114	115	118	120
Net income	34	57	41	25	(8)	1

Key Financial Ratios

Unit: %

	Jan-Sep * 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Profitability						
Net interest income/average assets	3.72	5.95	5.20	4.35	3.25	3.59
Non-interest income/average assets	0.04	0.02	0.06	0.06	0.07	0.30
Operating expenses/total income	50.24	50.38	47.80	44.63	54.09	54.01
Operating profit/average assets	1.45	1.96	1.40	0.78	(0.33)	0.08
Return on average assets	1.16	1.98	1.39	0.78	(0.25)	0.03
Return on average equity	2.08	3.46	2.90	2.14	(0.71)	0.09
Asset Quality						
Non-performing loans/total loans	11.15	13.10	12.89	10.35	11.56	15.99
Bad debts and doubtful accounts/average loans	0.01	0.08	(0.02)	(0)	(0.01)	(0.04)
Allowance for doubtful accounts/total loans	11.30	13.23	12.93	10.36	11.57	15.99
Capitalization						
Shareholders' equity/total assets	54.50	57.06	57.21	38.98	34.00	37.21
Shareholders' equity/total loans	52.09	52.97	50.85	39.35	33.55	46.71
Liquidity						
Total loans/total assets	104.63	107.72	112.51	99.07	101.33	79.67
Liquid assets/total assets	4.82	3.98	0.17	8.00	8.16	28.51

* Non-annualized

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