

# TSFC SECURITIES PLC

No. 219/2019  
27 December 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB  
**Outlook:** Stable

**Last Review Date:** 17/12/18

### Company Rating History:

Date	Rating	Outlook/Alert
25/11/15	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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## RATIONALE

TRIS Rating upgrades the company rating on TSFC Securities PLC (TSFC) PLC to “BBB” from “BBB-” with a “stable” outlook. The rating upgrade reflects the company’s improved business position including expanding loan portfolio and more diversified loan and revenue mix. The company has also maintained profitability, good asset quality, and low leverage with a manageable level of maturity mismatch in the company’s asset and liability structure.

## KEY RATING CONSIDERATIONS

### Improved business position

The company’s credit balance financing (Margin loan) portfolio has gradually expanded over the past few years. This is due to its continuous improvement in operation and marketing efforts, as well as adjustment of price scheme. In 2018, TSFC also launched new product offerings to meet clients’ needs, such as loans to brokers for margin transactions (LBMT). Its total loan portfolio, including margin loans and other types of loans, grew to Bt4.7 billion at the end of September 2019 from Bt3.3 billion at the end of 2016, mainly driven by margin loans. The margin loan portfolio rose to Bt3.7 billion at the end of September 2019 from Bt2.9 billion at the end of 2016. At the same time, loans to brokers also expanded to Bt1.0 billion at the end of September 2019 from Bt462 million at the end of 2016 due to stronger demand from mid to small-sized brokerage firms. TRIS Rating views that the steadily enlargement of the company’s loan portfolio, especially brokers’ loans, helps secure its role as a sole securities finance company with a mission to support the development of Thailand’s securities industry.

In the margin loan business, which has been its main revenue generator, the company was able to maintain its market position with 5.3% share (6th rank) among the brokerage firms at the end of June 2019. We expect that the company will be able to maintain its market position over the next few years despite a stagnant growth of system-wide margin loans outstanding due to ongoing efforts to improve business operations and tap its niche markets e.g. share financing for business owners. Furthermore, we also expect that its brokers’ loans business will gradually expand over the next few years as the company has continuously sought new business opportunities in response to client demands that are not served by other financial institutions.

### More diversified loan and revenue mix

Another major factor that helped enhance TSFC’s business profile is the increased diversity of loans and revenues. We expect this trend to continue over the next few years as the company widens its product range and focus more on wholesale clients. The company has gradually diversified its loan mix towards wholesale loans to brokers over the past few years through the introductions of new product offerings. This has helped enhance its ability to fulfill its mission to support the securities industry. At the end of September 2019, brokers’ loans contributed 20.1% of total loan portfolios, compared with 11.7% at the end of 2016, while margin loans to retail investors accounted for 79.9% of total loan portfolios at the end of September 2019, compared with 88.3% at the end of 2016.

In line with loan mix, the company’s revenue mix also shows positive trend with some diversifications towards interests earned from brokers’ loans. For the first nine months of 2019, interests on wholesale business contributed

10.2% of total revenue, compared with about 5% over the past few years. Interests on margin loans still make up the majority portion, at 87.4% of total revenue for the first nine months of 2019.

### **Acceptable profitability level**

As a sole securities finance company in Thailand, TSFC's mission is to support the securities industry while generating reasonable profit, rather than maximizing profit. We, therefore, view that its modest profitability level is acceptable. Nonetheless, compared with other securities finance companies in Japan and Korea, its return on average assets (ROAA) remains relatively higher. Its annualized ROAA was at 1.8% for the first nine months of 2019, approximately the same level as 2.0% in 2017-2018, compared with less than 1% ROAA generated by its direct peers.

We expect TSFC to remain profitable over the next few years as a result of loan expansion and effective cost management. The company's net profit improved to Bt93 million in 2018 from Bt46 million in 2016. It has managed to keep its funding cost low at 2.3% for the first nine months of 2019 due to reliance on short-term funding. However, as the company diversified towards longer-term funding in the future, funding cost could rise gradually. The company's ratio of operating expenses to total income also remained low at 37.0% for the first nine months of 2019 as a result of well-controlled personnel expenses.

### **Good control of asset quality and limited exposure to market risk**

TSFC has maintained good asset quality for both retail margin loans and wholesale loans to brokers, thanks to relatively prudent risk management systems. This has been a factor that underpins its risk position. There were no additional credit costs as of September 2019 and the year 2018. TSFC also has limited exposure to market risk as the company maintains a small portfolio of government bonds for liquidity purposes, which aligns with its investment policies determined by the company's board of directors. Investment in government bonds accounted for only 2.1% of the company's total assets at the end of September 2019. With major shareholders, including the SET and the Ministry of Finance (MOF), controlling TSFC's risk management and investment policies, we expect asset quality and market risk exposure to remain manageable in the longer term.

### **Low leverage with manageable asset-liability mismatch and sufficient liquidity**

We expect the company's leverage level to slightly increase over the next few years as debt funding is needed to support its expanding loan portfolios. We forecast its debt to equity (D/E) ratio to hover around 2 times from 1.7 times at the end of September 2019. Nonetheless, we still consider this projected level of leverage to be low. TSFC's equity base of Bt1.8 billion at the end of September 2019 is appropriate for its current business operation.

In terms of funding, the company exposes to some degree of maturity mismatch in its asset and liability structure. The company relies mainly on revolving short-term borrowings through promissory notes from various banks as its source of funds. Its main use of funds are retail margin loans, a portion of which tends to have longer than one-year maturity given the nature of its clients who are long-term investors. Nonetheless, we have no major concerns over the mismatch as these margin loans can be called before maturity if necessary. In the future, the company plans to diversify towards long-term funding structure. Although its funding cost could increase, this should alleviate our concerns over refinancing risk.

### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for TSFC's operations in 2019-2022 are as follows:

- Total loan portfolio to be around Bt4.5-Bt6 billion
- Interest spread to maintain at approximately 3%-4%
- Ratio of operating expenses to total income to remain around 35%-38%

### **RATING OUTLOOK**

The "stable" outlook is based on TRIS Rating's expectation that TSFC will maintain its financial performance as well as its capital and liquidity position. In addition, the outlook is based on our expectation that TSFC will continue to diversify its loan and revenue mix and maintain its risk control standards.

### **RATING SENSITIVITIES**

TSFC's credit upside would materialize if the company is able to meaningfully diversify its revenue mix while improving its financial position, including capital and liquidity position. On the contrary, the rating and/or outlook could be revised downward if the company's operating performance or market position deteriorates significantly and/or its capital position and financial leverage deteriorates materially.

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**COMPANY OVERVIEW**

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TSFC was founded in September 1996. The MOF recognized the need to set up specialized firms to conduct securities-related financing as part of its efforts to develop the Thai capital market. TSFC was founded with initial paid-up capital of Bt1 billion. Its mission was to serve as a reliable source of funds for securities firms. Securities firms needed a reliable source of funds because a regulatory change forced finance companies to separate their finance business from their securities business.

TSFC commenced operations in 1996 by lending its excess funds through the money market. TSFC is the sole company licensed by the MOF to provide securities financing, including margin loan refinancing, loans against pledged securities, and securities repurchase agreements.

TSFC's original shareholders were public and private sector organizations, including the MOF, Government Savings Bank (GSB), Krung Thai Bank (KTB), the Stock Exchange of Thailand (SET), other commercial banks, finance companies, and securities companies. As of June 2007, government-related entities held 26.9% of TSFC's shares, while commercial banks, finance companies, and securities companies held 44.4%. The remaining 28.7% was held by finance and securities companies that were permanently closed as a result of the 1997 financial crisis. This portion came under the management of the Financial Institutions Development Fund (FIDF) after these finance and securities companies were closed by the regulatory authorities. TSFC's board of directors, made up of shareholders' representatives, has contributed the expertise that TSFC needed to develop its policies and business.

In 1997, TSFC introduced other types of loans for securities companies, including margin loan refinancing, loans against pledged securities, and loans made under repurchase agreements. Moreover, the MOF ordered TSFC to launch a special project loan program designed to help cash-strapped securities firms in the early days of the Asian financial crisis.

TSFC's scope of services has expanded. For example, in 2002, TSFC began providing secured securities underwriting for securities companies by issuing a Contingent Agreement to Purchase Letter (CAPL) to underwriters. In 2003, TSFC launched credit balance financing by transferring brokers' margin accounts to its own account. This service provides financial flexibility to securities companies by lowering their net capital reserve (NCR) requirements.

The Thai stock market experienced a remarkable recovery in 2003. As a result, TSFC built up a substantial portfolio of margin loans, launched Employee Stock Option Program (ESOP) financing, as well as loans to investors for private placements (PP), initial public offerings (IPO), and public offerings (PO). IPO and ESOP financings are TSFC's exclusive purview; other securities firms are prohibited from offering these services. TSFC has launched other new products and services, including mutual fund guarantees and securities borrowing and lending (SBL). TSFC is permitted to conduct SBL services, provide securities underwriters with contingent agreements to purchase the unsold portions of securities offerings, and provide guarantees to mutual fund investors.

TSFC was greatly impacted after the Thai stock market plummeted in October 2008. TSFC signed a debt restructuring agreement (DRA) with its major creditors on 20 March 2009. On 22 July 2009, the company was able to fulfil a key condition in the DRA: raising at least Bt1 billion of new equity capital from its existing shareholders, new investors, and through a debt-equity conversion. TSFC obtained Bt1,016.7 million in new equity capital at a par value of Bt10 per share. TSFC registered the new share issues at the Ministry of Commerce on 24 July 2009. The Securities and Exchange Commission (SEC) allowed TSFC to restart its margin loan business on 28 July 2009. After the recapitalization, the SET became TSFC's largest shareholder, holding a 24.66% stake, followed by the MOF (10.56%), KTB (6.02%), and GSB (4.92%).

TSFC raised new equity capital in July 2014. After the capital increase, TSFC's equity base was strengthened. On 22 July 2014, TSFC raised Bt532 million through a private placement with its major shareholders, the SET, the MOF, and GSB, resulting in an increase in TSFC's shareholders' equity to Bt1,549 million from Bt1,016 million and making the SET its largest shareholder, owning 40.65%, followed by the MOF (10.56%) and GSB (9.5%). Other shareholders are commercial banks (11.89%), securities companies (10.9%), asset management funds (9.7%), insurance companies (2.82%), and others (0.03%).

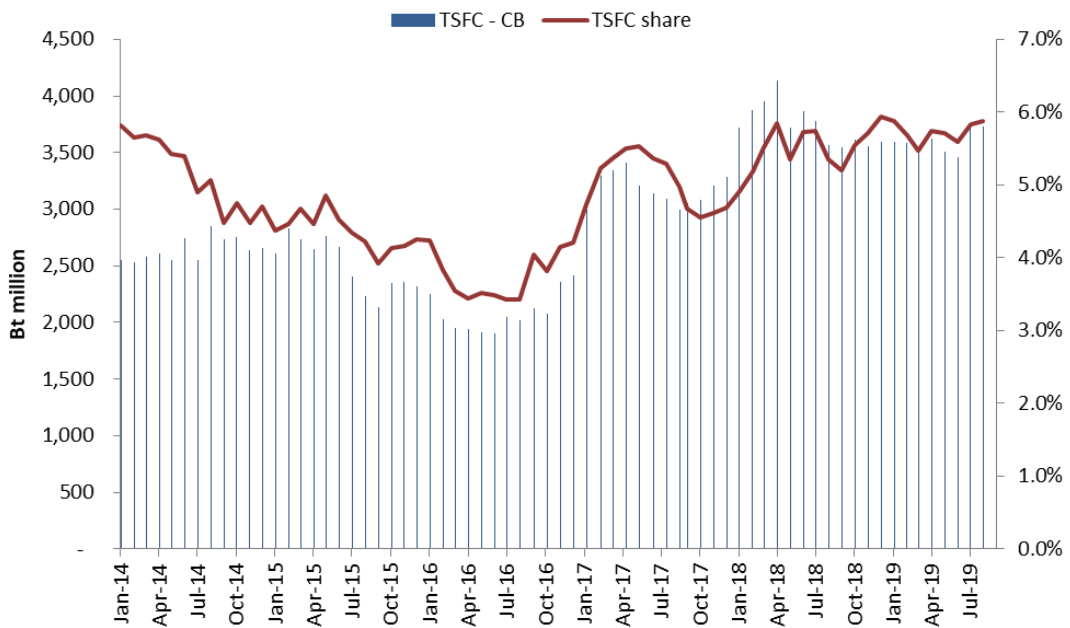
In the second half of 2014, TSFC started offering loans to securities companies, a product it used to offer. In 2017, TSFC started offering LBMT and block trade financing as additional product programs to further serve the company's mission to act as a liquidity provider for securities companies. In September 2018, TSFC has received Certificate of Registration Information Security Management System – ISO/IEC 27001:2013 from The British Standards Institution (BSI), which certifies that the company's management of information security applied to the electronic fund transfer operation using BAHTNET complies with the requirements of ISO/IEC 27001:2013.

In December 2019, GSB acquired more stakes in TSFC by purchasing 15,095,418 shares from TSFC's existing shareholders. Together with GSB's previously owned shares in the company, therefore, GSB now holds 29,812,018 shares in TSFC,

increasing its stakes to 19.25% in TSFC from 9.50%.

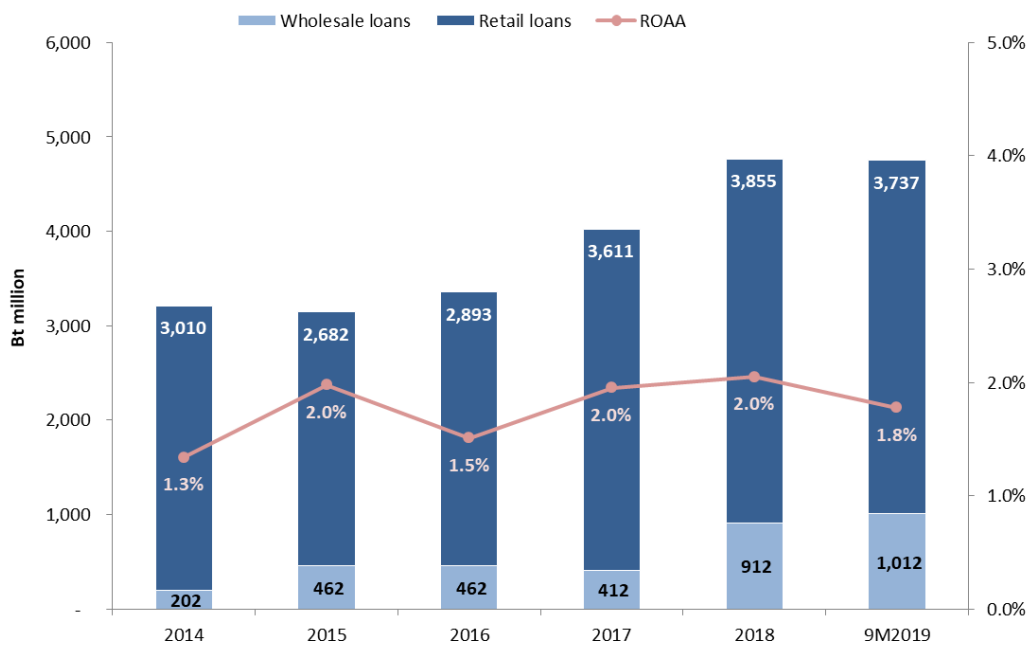
**KEY OPERATING PERFORMANCE**

**Chart 1: TSFC's Margin Loans and Market Share after Recapitalization in 2014**



Source: 1) Stock Exchange of Thailand (SET)  
2) TSFC  
3) TRIS Rating's database

**Chart 2: TSFC's Loan Mix and Returns on Average Assets (ROAA)**



Source: TSFC

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	4,778	4,682	4,354	3,186	2,919
Net Investment in securities	101	170	254	118	113
Loans and receivables	4,749	4,767	4,023	3,355	3,145
Allowance for doubtful accounts	122	304	320	351	416
Total borrowings	2,785	2,800	2,446	1,258	1,143
Shareholders' equity	1,772	1,747	1,686	1,634	1,666
Net interest and dividend income	155	216	196	150	172
Bad debts and doubtful accounts	(2)	(3)	8	(1)	3
Non-interest income	1	0	1	1	1
Operating expenses	78	103	98	94	113
Net income	63	93	74	46	57

*Unit: %*

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
<b>Profitability</b>					
Net interest income/average assets	4.36 *	4.77	5.21	4.90	5.95
Non-interest income/average assets	0.02 *	0.01	0.03	0.04	0.02
Operating expenses/total income	37.94	37.15	39.81	51.28	50.38
Operating profit/average assets	2.22 *	2.56	2.44	1.89	1.96
Return on average assets	1.78 *	2.05	1.95	1.51	1.98
Return on average equity	4.78 *	5.39	4.43	2.79	3.46
<b>Asset Quality</b>					
Non-performing loans/total loans	2.5	6.3	7.7	10.3	13.1
Bad debts and doubtful accounts/average loans	(0.03)	(0.07)	0.22	(0.02)	0.08
Allowance for doubtful accounts/total loans	2.57	6.38	7.96	10.45	13.23
<b>Capitalization</b>					
Shareholders' equity/total assets	37.09	37.32	38.72	51.30	57.06
Shareholders' equity/total loans	37.31	36.66	41.91	48.71	52.96
<b>Liquidity</b>					
Total loans/total assets	99.40	101.80	92.40	105.31	107.72
Liquid assets/total assets	2.17	3.68	5.96	3.72	3.98

*\* Annualized*
**RELATED CRITERIA**

- Nonbank Lending Company, 7 May 2018

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**TSFC Securities PLC (TSFC)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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