

# TSFC SECURITIES PLC

No. 120/2015

25 November 2015

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

## Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating of TSFC Securities PLC (TSFC) to “BBB-” from “BB+” with a “stable” outlook. The upgraded rating reflects TSFC’s strengthened capital base, sustained profitability, improved financial flexibility, continual improvements in its internal credit risk management system, and the financial support 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 also reflects a mismatch in some of TSFC’s asset and liability structures. The rating takes into consideration the company’s strategic decision to become a short-term liquidity provider to securities companies. The success of new endeavor has yet to be proved.

TSFC raised new equity capital in July 2014, strengthening its equity base. On 22 July 2014, TSFC raised Bt532 million through a private placement with its major shareholders, the SET, the Ministry of Finance (MOF), and the Government Savings Bank (GSB). TSFC’s shareholders’ equity increased from Bt1,016 million to Bt1,549 million. The SET is the largest shareholder of the company, 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 to 52.39% as of June 2015.

TSFC was badly hit by the financial crisis in 2008, due to net unrealized losses from investments in securities held for trading. After the restructuring in April 2009, TSFC’s business and financial profile had not rebounded as expected, due to greater competition in the margin loan segment. However, TSFC’s financial profile has recovered since 2013, and is now stronger than TRIS Rating’s expectation. The stronger capital base will support its plan to expand. Net profit increased to Bt25 million in 2013, Bt41 million in 2014, and Bt37 million for the first half of 2015.

As of June 2015, TSFC’s total assets were Bt3,145 million, of which 88% were net margin loan receivables (Bt2,753 million). The company has faced challenges in its core business for two main reasons: changing market conditions, the competitive response to TSFC’s re-entry into margin lending. From 2010 to June 2015, other securities brokers have rapidly expanded their margin loan portfolios. The total amount of outstanding margin loans industry-wide grew to Bt59 billion as of June 2015, from Bt16 billion in 2009. The financial crisis in 2008 slashed TSFC’s margin loan portfolio from Bt6,377 million in September 2008 to Bt2,666 million in June 2015. Its market share nosedived from 24% in September 2008 to 4.5% in June 2015. TSFC’s market share plummeted because its funding costs were higher than its competitors.

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 its high-cost borrowings. The company now has better financial flexibility and a competitive funding cost. As of June 2015, the company had a total of Bt6.39 billion in credit facilities made available from several local financial institutions.

In terms of asset quality, in 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 collaterals. 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 its margin loans by strictly enforcing margin calls and forced sales, and by maintaining its stringent criteria on collaterals and underwriting.

TSFC plans to start offering loans to securities companies, a product it used to offer. These types of loans affirm TSFC's mission to act as a liquidity provider to securities companies. However, the new type of loan poses some risk management challenges. In addition, TSFC has a short track record in this segment.

### Rating Outlook

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

The possibilities for a rating and/or outlook upgrade for TSFC are limited. The rating and/or outlook of TSFC could be negatively impacted if intense competition or stock market volatility cause TSFC's performance to deteriorate. In addition, if the mismatch between TSFC's assets and liabilities increased much beyond the current levels, this would be a downward factor for the rating.

### TSFC Securities PLC (TSFC)

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

### Financial Statistics

Unit: Bt million

	Jan-Jun 2015	----- Year Ended 31 December -----				
		2014	2013	2012	2011	2010
Total assets	3,145	2,885	2,994	3,360	3,092	3,182
Net Investment in securities	90	3	235	269	863	45
Loans and receivables	3,407	3,213	2,966	3,405	2,463	3,242
Allowance for doubtful accounts	417	415	307	394	394	395
Total borrowings	1,404	1,158	1,729	1,990	1,600	1,781
Shareholders' equity	1,648	1,633	1,167	1,142	1,151	1,159
Net interest and dividend income	91	152	138	105	113	152
Bad debts and doubtful accounts	2	(1)	(0.1)	(0.3)	(1)	44
Non-interest income	0.3	2	2	2	10	18
Operating expenses	56	114	115	118	120	112
Net income	37	41	25	(8)	1	(0.3)

### Key Financial Ratios

Unit: %

	Jan-Jun * 2015	Year Ended 31 December -----				
		2014	2013	2012	2011	2010
<b>Profitability</b>						
Net interest income/average assets	3.05	5.20	4.35	3.25	3.59	4.27
Non-interest income/average assets	0.01	0.06	0.06	0.07	0.30	0.50
Operating expenses/total income	46.65	47.80	44.63	54.09	54.01	46.74
Operating profit/average assets	1.13	1.40	0.78	(0.33)	0.08	0.40
Return on average assets	1.25	1.39	0.78	(0.25)	0.03	(0.01)
Return on average equity	2.28	2.90	2.14	(0.71)	0.09	(0.03)
<b>Asset Quality</b>						
Non-performing loans/total loans	8.86	9.39	10.35	11.56	15.99	14.27
Bad debts and doubtful accounts/average loans	0.05	(0.02)	(0)	(0.01)	(0.04)	1.45
Allowance for doubtful accounts/total loans	12.24	12.93	10.36	11.57	15.99	12.18
<b>Capitalization</b>						
Shareholders' equity/total assets	52.39	57.21	38.98	34.00	37.21	36.42
Shareholders' equity/total loans	48.36	50.85	39.35	33.55	46.71	35.74
<b>Liquidity</b>						
Total loans/total assets	108.33	112.51	99.07	101.33	79.67	101.90
Liquid assets/total assets	2.88	0.17	8.00	8.16	28.51	1.96

\* Non-annualized

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