

TSFC SECURITIES PLC

No. 1/3/2017

22 December 2017

Company Rating: BBB-**Outlook:** Stable**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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raithiwa@trisrating.com**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating of TSFC Securities PLC (TSFC) at "BBB-". The rating reflects TSFC's adequate capital base, ability to maintain business and financial performance as expected, and the financial support it receives from its largest shareholder, the Stock Exchange of Thailand (SET). However, the rating is constrained by increasing competition in the margin loan business, deteriorating asset quality, and high volatility in the stock market. The rating takes into consideration the company's limited scope of businesses and ability to achieve the company's mission. The success of its strategic decision to become a short-term liquidity provider to securities companies has yet to be proved.

TSFC's major shareholders are the SET, the Ministry of Finance (MOF), and the Government Savings Bank (GSB). The SET is the largest shareholder, owning a 40.65% stake, followed by the MOF (10.56%) and GSB (9.54%).

TSFC currently provides margin loan services to retail clients and short-term liquidity to securities companies. As of September 2017, total assets were Bt3,986 million, of which 80% was net margin loan receivables (Bt3,198 million). In terms of revenue, almost 90% of revenue comes from interest on margin loans, which exposes TSFC to business and revenue concentration risks.

After being hit by financial crisis in 2008, TSFC's business and financial profile has not rebounded as expected. The company has faced challenges in its core business for two main reasons: changing market conditions and greater competition in the margin loan segment. From 2010 to September 2017, other securities brokers have rapidly expanded their margin loan portfolios. The total amount of outstanding margin loans industry-wide grew to Bt65.2 billion as of September 2017, from Bt15.9 billion in 2009. The 2008 financial crisis slashed TSFC's margin loan portfolio from Bt6,377 million in September 2008 to Bt2,417 million in 2016. However, its margin loan portfolio increased to Bt3,049 million in September 2017, up 26.15% compared with the end of December 2016. TSFC's market share was 4.7% in September 2017.

TSFC has offered new products to diversify its revenue sources and achieve its mission of providing liquidity to securities companies. TSFC has been offering loans to securities companies since 2014, a product it used to offer. As of September 2017, TSFC's outstanding loans to securities companies amounted to Bt495 million. In addition, TSFC continued to offer financing to businesses in securities repurchase under repurchase agreements. As of September 2017, TSFC's outstanding loans to securities purchase under REPO agreements amounted to Bt100 million. TSFC has a short track record in these two segments.

TSFC has been able to reduce its funding cost by seeking new long-term credit lines to refinance 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 to 2.67% in 2016. TSFC's funding cost decreased continuously to 2.26% (annualized) for the first nine months of 2017. As of September 2017, the company had sufficient credit facilities available from several local financial institutions. TSFC's financial profile has recovered since 2013. The company has a strong capital base to support its business expansion. The ratio of shareholders' equity to total assets was 41.76%, as of September 2017.

Net profit increased from Bt25 million in 2013 to Bt57 million in 2015. Net profit decreased 19% to Bt46 million in 2016 due mainly to no tax benefit in this year. However, net profit improved to Bt54 million for the first nine months of 2017, compared with Bt34 million in the same period last year, due to management's ability to manage cost of funds and business expansion with a better mix of clients.

In terms of asset quality, TRIS Rating expects that TSFC will be able to control the credit risk of the margin loans by strict enforcing margin calls and forced sales and by maintaining stringent criteria on collateral and 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 will generate additional income as planned, and TSFC will continue to receive support from the SET, its major shareholder.

TSFC's rating and/or outlook 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, substantial improvement in its business profile and stable improvement in profitability would be a boost for the rating.

TSFC Securities PLC (TSFC)**Company Rating:**

BBB-

Rating Outlook:

Stable

Financial Statistics
Unit: Bt million

	Jan Sep 2017	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	3,986	3,186	2,919	2,885	2,994
Net Investment in securities	154	118	113	3	235
Loans and receivables	4,115	3,355	3,145	3,213	2,966
Allowance for doubtful accounts	322	351	416	415	307
Total borrowings	2,140	1,258	1,143	1,158	1,729
Shareholders' equity	1,665	1,634	1,666	1,633	1,167
Net interest and dividend income	147	150	172	152	138
Bad debts and doubtful accounts	10	(1)	3	(1)	(0.1)
Non-interest income	1	1	1	2	2
Operating expenses	70	94	113	114	115
Net income	54	46	57	41	25

Key Financial Ratios
Unit: %

	Jan-Sep * 2017	Year Ended 31 December			
		2016	2015	2014	2013
Profitability					
Net interest income/average assets	4.09	4.90	5.95	5.20	4.35
Non-interest income/average assets	0.02	0.04	0.02	0.06	0.06
Operating expenses/total income	38.48	51.28	50.38	47.80	44.63
Operating profit/average assets	1.87	1.89	1.96	1.40	0.78
Return on average assets	1.50	1.51	1.98	1.39	0.78
Return on average equity	3.25	2.79	3.46	2.90	2.14
Asset Quality					
Non-performing loans/total loans	7.48	10.36	13.10	12.89	10.35
Bad debts and doubtful accounts/average loans	0.27	(0.02)	0.08	(0.02)	(0)
Allowance for doubtful accounts/total loans	7.83	10.45	13.23	12.93	10.36
Capitalization					
Shareholders' equity/total assets	41.76	51.30	57.06	57.21	38.98
Shareholders' equity/total loans	40.45	48.71	52.97	50.85	39.35
Liquidity					
Total loans/total assets	103.24	105.31	107.72	112.51	99.07
Liquid assets/total assets	3.91	3.72	3.98	0.17	8.00

** Non-annualized*
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