

# TSFC SECURITIES PLC

No. 114/2014

4 December 2014

**Company Rating:** BB+

**Outlook:** Positive

**Company Rating History:**

Date	Rating	Outlook/Alert
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 “BB+” and changes the rating outlook to “positive” from “stable”. The rating reflects TSFC’s strengthened capital base, improved financial flexibility, continual improvements in its internal credit risk management system, and financial support from its largest shareholder, the Stock Exchange of Thailand (SET). However, the rating is constrained by the increasingly competitive environment in its main line of business, making margin loans. The rating is also constrained by the high volatility in the Thai stock market and by its own relatively weak profitability. The rating also takes into consideration the company’s strategic decision to become a short-term liquidity provider to securities companies. The success of this new endeavor has yet to be moved.

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 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, owing 40.65%, 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 53.1% as of September 2014.

TSFC was strongly hit by the financial crisis in 2008, due to net unrealized losses from investments in securities held for trading. After restructuring in April 2009, TSFC’s business and financial profile had not been turnaround as expected, caused by its less competitiveness in the margin loan business. 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, and was Bt23 million for the first nine months of 2014.

As of September 2014, TSFC’s total assets were Bt3,046 million, of which 94% were net margin loan receivables (Bt2,875 million). 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 September 2014, other securities brokers rapidly expanded their margin loan portfolios. The total amount of outstanding margin loans industry-wide grew to Bt56 billion as of September 2014, from Bt16 billion in 2009. The effect from the financial crisis in 2008 caused TSFC’s margin loan portfolio to decrease dramatically from Bt6,377 million in September 2008 to Bt2,737 million in September 2014. Its market share nosedived from 24% in September 2008 to 5% in September 2014. TSFC’s market share plummeted because its funding costs were higher than its competitors.

After new 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 competitive funding cost. As of September 2014, the company had a total of Bt5.33 billion in

credit facilities made available from several local financial institutions.

In terms of asset quality, in 2013, TSFC has developed and implemented more stringent criteria for granting margin loans. The new criteria reflect the different risk levels of stock pledge 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 its margin loans by strictly enforcing margin calls and forced sales, and by maintaining its stringent criteria on collateral 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 the securities companies. However, the new type of loans will pose some risk management challenges. In addition, TSFC has a short track record in this segment.

### Rating Outlook

The "positive" outlook is based on TRIS Rating's expectation that normal market conditions will continue in the stock market, without any unexpected or excessive downside risk, for the next three to five years. The outlook also assumes TSFC will improve its financial performance and raise 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.

## TSFC Securities PLC (TSFC)

**Company Rating:**

BB+

**Rating Outlook:**

Positive

### Financial Statistics

Unit: Bt million

	Jan-Sep 2014	----- Year Ended 31 December -----				
		2013	2012	2011	2010	2009
Total assets	3,046	2,994	3,360	3,092	3,182	3,955
Net Investment in securities	125	235	269	863	45	1,290
Loans and receivables	3,177	2,966	3,405	2,463	3,242	2,857
Allowance for doubtful accounts	302	307	394	394	395	464
Total borrowings	1,309	1,729	1,990	1,600	1,781	2,658
Shareholders' equity	1,616	1,167	1,142	1,151	1,159	1,159
Net interest and dividend income	106	138	105	113	152	148
Bad debts and doubtful accounts	(1)	(0.1)	(0.3)	(1)	44	(1)
Non-interest income	1	2	2	10	18	(1,009)
Operating expenses	86	115	118	120	112	146
Net income	23	25	(8)	1	(0.3)	(858)

### Key Financial Ratios

Unit: %

	Jan-Sep * 2014	Year Ended 31 December				
		2013	2012	2011	2010	2009
<b>Profitability</b>						
Net interest income/average assets	3.51	4.35	3.25	3.59	4.27	2.33
Non-interest income/average assets	0.05	0.06	0.07	0.30	0.50	(15.95)
Operating expenses/total income	48.38	44.63	54.09	54.01	46.74	(19.62)
Operating profit/average assets	0.79	0.78	(0.33)	0.08	0.40	(15.91)
Return on average assets	0.78	0.78	(0.25)	0.03	(0.01)	(13.56)
Return on average equity	1.69	2.14	(0.71)	0.09	(0.03)	(140.57)
<b>Asset Quality</b>						
Non-performing loans/total loans	9.50	10.35	11.56	15.99	14.27	21.41
Bad debts and doubtful accounts/average loans	(0.05)	(0)	(0.01)	(0.04)	1.45	(0.02)
Allowance for doubtful accounts/total loans	9.51	10.36	11.57	15.99	12.18	16.23
<b>Capitalization</b>						
Shareholders' equity/total assets	53.06	38.98	34.00	37.21	36.42	29.30
Shareholders' equity/total loans	50.87	39.35	33.55	46.71	35.74	40.57
<b>Liquidity</b>						
Total loans/total assets	104.31	99.07	101.33	79.67	101.90	72.23
Liquid assets/total assets	4.14	8.00	8.16	28.51	1.96	33.91

\* Non-annualized

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