

TSFC Securities Public Company Limited

Company Rating:
Rating Outlook:

BB+
Positive

Rating History:	Company Rating	Issue Rating	
		Secured	Unsecured
28 Jul 2009	BB/Stable	-	-
17 Dec 2008	D	-	-
16 Dec 2008	C/Alert Negative	-	-
28 Nov 2008	BB-/Alert Negative	-	-
7 Nov 2008	BBB-/Alert Negative	-	-
1 Feb 2008	A/Stable	-	A-
29 Nov 2007	A/Stable	-	-
4 Apr 2005	A/Stable	-	A-
12 Jul 2004	A-/Positive	-	BBB+
17 Jun 2004	A-	-	BBB+
31 Dec 2003	A-	-	-
8 May 2003	A-	-	BBB+
9 May 2002	A-	-	-

Rating Rationale

TRIS Rating raises the company rating of TSFC Securities PLC (TSFC) to “BB+” from “BB”. The rating reflects TSFC’s improved debt profile after completing the debt repayment obligations as scheduled in the Debt Restructuring Agreement (DRA). The rating is, however, pressured by constrained financial flexibility and financial performance, although the company has a strong capital fund after recapitalization. The rating is also taken into account the operating environment factors and market response to the company’s re-entry into the margin loan business as its core business, and short track record in new businesses (private repurchase agreement (REPO) and stock borrowings and lending (SBL)). The rating takes into consideration the support from the largest shareholder -- the Stock Exchange of Thailand (SET), good operational system to support the margin loan business, and improvement in the company’s financial performance in 2010.

TSFC entered the DRA on 20 March 2009, and on 22 July 2009 the company was able to fulfill the DRA’s condition to raise at least Bt1 billion of new capital from existing shareholders, new investors and debt-equity conversion. The new capital of Bt1,016.74 million (par at Bt10 per share) strengthened the company’s BIS ratio to about 30% from 0.92% as of March 2009. After the recapitalization, SET became the largest shareholder, holding 24.66% stake in TSFC, followed by the Ministry of Finance (MOF) (10.56%), Krungthai Bank PLC (6.02%), Government Savings Bank (4.92%), 12 commercial banks (17.72%), 36 securities companies (16.99%), funds managed by 14 fund management companies (14.85%) and nine insurance companies (4.28%).

Under the DRA, all debtors were ranked pari passu. Total debt obligations were Bt8,725 million, of which were already repaid to the debtors as of 21 June 2010. The company received credit facilities, mainly from four banks, which provided sufficient funding to service all its debt obligations. However, TSFC has a constrained financial flexibility and relatively low profitability, which might make the company be exposed to re-financing risk in the future.

The company continues to face challenges in its core business due to future uncertainty in changes of operating environment and market response to the company’s re-entry into the margin loan business. After being hurt by the financial crisis in 2008, TSFC’s market share in margin loan business nosedived from 27%-28% in 2006-2007 to 22% in 2008 and 12% as of June 2010. In 2009, TSFC’s total loans and receivables were Bt2,857 million, dropping by 24% from 2008. As of September 2010, the loans and receivables grew by 9% (year to date -- YTD) to Bt3,122 million.

According to the business plan, the company has an opportunity in the new businesses (private REPO and SBL), but success in efficiently running the new businesses has yet to be proved. However, management team will need time to build up a track record and achieve a considerable market size as stipulated in the business plan.

As of September 2010, TSFC's total assets were Bt3,162 million, slightly dropping by 20% from Bt3,955 million at the end of 2009. In 2009, TSFC realized losses of Bt1,010 million from investment in equity-related securities, causing a net loss of Bt858 million. For the first nine months of 2010, TSFC reported a net profit of Bt64 million, and gradually recovered its financial performance during the first three quarters of 2010. After achieving the new capital increase in July 2009, the company has a strong capital fund. The ratio of shareholders' equity to total assets jumped from 0.71% in 2008 to 29.3% in 2009, and stayed at 38.24% in September 2010.

Rating Outlook

The "positive" outlook reflects TRIS Rating's expectation that the stock market will continue to move in a positive momentum and TSFC would be able to deliver its business and financial performance to be in line with the industry trend. In addition, the rating outlook also takes into account the expected supports from SET as the largest shareholder. The abilities to recapture the market position in the margin loan business, operate new businesses as planned, and access to funding from various sources have yet to be proved.

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