

TSFC SECURITIES PLC

No. 86/2012

26 October 2012

Company Rating: BB+

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
15/08/12	BB+/Alert Dev	-
04/02/11	BB+/Pos	-
28/07/09	BB/Sta	-
17/12/08	D	-
16/12/08	C/Alert Neg	-
28/11/08	BB-/Alert Neg	-
07/11/08	BBB-/Alert Neg	-
01/02/08	A/Sta	-/A-
29/11/07	A/Sta	-
04/04/05	A/Sta	-/A-
12/07/04	A-/Pos	-/BBB+
17/06/04	A-	-/BBB+
31/12/03	A-	-
08/05/03	A-	-/BBB+
09/05/02	A-	-

Rating Rationale

TRIS Rating removes the CreditAlert with “developing” implication placed on the company rating of TSFC Securities PLC (TSFC) since 15 August 2012, and at the same time affirms TSFC’s company rating at “BB+” with “stable” outlook. 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 pressured by constrained financial flexibility and relatively weak financial performance, although the company will have a strong capital fund after recapitalization. The rating is also considered uncertainty in operating environment 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 supports from the largest shareholder -- the Stock Exchange of Thailand (SET), and good operational system to support the margin loan business.

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%), and the Government Savings Bank (GSB) (4.92%). The other shareholders are commercial banks (18.12%), securities companies (15.80%), asset management funds (14.77%), insurance companies (4.30%), and others (0.85%).

As of June 2012, TSFC’s total assets were Bt2,972 million, further down from Bt3,182 million at the end of 2010 and Bt3,092 million at the end of 2011, while having Bt2,589 million of gross margin loan receivables. TSFC’s profitability is considered weaker than TRIS Rating’s expectation. TSFC recorded net losses of Bt901 million and Bt858 million in 2008 and 2009, respectively. After net unrealized losses from investments in securities held for trading, the company also reported net losses of Bt0.3 million in 2010. In 2011, TSFC had net profits of only about Bt1 million, but turned to record net losses of Bt15 million for the first half of 2012.

The company will face challenges in its core business due to future uncertainties in the changing operating environment and market response to the company’s re-entry into the margin loan business. From 2010 to June 2012, securities brokerage operators rapidly expanded margin loans portfolio, making the total market size of margin loans grow to Bt29 billion as of June 2012 from Bt16 billion in 2009. TSFC has lost its competitive funding costs and had lower market share in its core business. As of June 2012, TSFC’s margin loans decreased to Bt2,094 million. Its market share decreased from 22%-29% in 2006-2008. After being hurt by the financial crisis in 2008, the market share nosedived to 14% in 2009, and further lowered to 7% as of June 2012.

According to the business plan, the company has opportunity in new businesses (private REPO and SBL), but success in efficiently running the new businesses have yet to be proved. However, management team will need time to

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build-up a track record and achieve a considerable market size as stipulated in the business plan. 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. As of June 2012, the ratio rose to 38.22%, as asset size decreased.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that the stock market will move in a stable momentum with no unexpected downside risks in the medium term. 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.

TSFC Securities PLC (TSFC)

Company Rating:	BB+
Rating Outlook:	Stable

Financial Statistics

Unit: Bt million

	Jan-Jun 2012	Year Ended 31 December				
		2011	2010	2009	2008	2007
Total assets	2,972	3,092	3,182	3,955	8,705	21,187
Net Investment in securities	569	863	45	1,290	4,218	13,208
Loans and receivables	2,589	2,463	3,242	2,857	3,764	7,989
Allowance for doubtful accounts	394	394	395	464	464	202
Total borrowings	1,620	1,600	1,781	2,658	8,516	16,466
Shareholders' equity	1,136	1,151	1,159	1,159	62	2,129
Net interest and dividend income	49	113	152	148	186	557
Bad debts and doubtful accounts	0	(1)	44	(1)	262	(15)
Non-interest income	2	10	18	(1,009)	(623)	25
Operating expenses	64	120	112	146	174	204
Net income	(15)	1	(0.3)	(858)	(901)	361

Key Financial Ratios

Unit: %

	----- Year Ended 31 December -----					
	Jan-Jun * 2012	2011	2010	2009	2008	2007
Profitability						
Net interest income/average assets	1.60	3.59	4.27	2.33	1.24	2.92
Non-interest income/average assets	0.05	0.30	0.50	(15.95)	(4.17)	0.13
Operating expenses/total income	61.31	54.01	46.74	(19.62)	81.54	16.28
Operating profit/average assets	(0.44)	0.08	0.40	(15.91)	(5.85)	2.06
Return on average assets	(0.48)	0.03	(0.01)	(13.56)	(6.03)	1.89
Return on average equity	(1.27)	0.09	(0.03)	(140.57)	(82.21)	18.39
Asset Quality						
Non-performing loans/total loans	15.21	15.99	14.27	21.41	22.72	2.52
Bad debts and doubtful accounts/average loans	(0.02)	(0.04)	1.45	(0.02)	4.46	(0.24)
Allowance for doubtful accounts/total loans	15.21	15.99	12.18	16.23	12.34	2.53
Capitalization						
Shareholders' equity/total assets	38.22	37.21	36.42	29.30	0.71	10.05
Shareholders' equity/total loans	43.87	46.71	35.74	40.57	1.64	26.65
Liquidity						
Total loans/total assets	87.12	79.67	101.90	72.23	43.24	37.71
Liquid assets/total assets	19.44	28.51	1.96	33.91	56.17	62.37

* Non-annualized

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