

TSFC SECURITIES PLC

No. 109/2013

19 December 2013

Company Rating: BB+

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
26/10/12	BB+/Sta	-
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-	-

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Rating Rationale

TRIS Rating affirms the company rating of TSFC Securities PLC (TSFC) at "BB+". The rating reflects the financial support from the largest shareholder of TSFC, the Stock Exchange of Thailand (SET), and the recent improvement in its financial profile. However, the rating is constrained by intense competition and TSFC's funding costs, which are higher than its rivals. These two factors limit TSFC's ability to expand its margin loan business. The rating takes into consideration that the company has a short track record in two new businesses (private repurchase agreement (REPO) and stock borrowings and lending (SBL)).

After an equity capital increase in July 2009, TSFC now has a strong equity base. As of September 2013, the shareholders' equity of TSFC was Bt.1, 163 billion. The major shareholders are the SET (24.66% of the outstanding shares), the Ministry of Finance (MOF; 10.56%), Krungthai Bank PLC (KTB; 6.02%), and the Government Savings Bank (GSB; 4.92%). The other shareholders are commercial banks (18.12%), securities companies (16.61%), asset management funds (14.77%), insurance companies (4.30%), and others (0.04%). The ratio of shareholders' equity to total assets jumped from 0.71% in 2008 to 29.3% in 2009. As of September 2013, the ratio rose to 36.75%, as the total assets of the company had decreased.

As of September 2013, TSFC's total assets were Bt3,165 million against Bt3,152 million of gross margin loan receivables. TSFC recorded net losses of Bt901 million and Bt858 million in 2008 and 2009, respectively, due to net unrealized losses from investments in securities held for trading, TSFC reported a net loss of Bt0.3 million in 2010. In 2011, TSFC had net profits of about Bt1 million, but turned to record a net loss of Bt8 million in 2012. Net profit increased to Bt21 million for the first nine months of 2013, stronger than TRIS Rating's expectation.

The company will face challenges in its core business for two main reasons: changing market conditions and the competitive response to TSFC's re-entry into the margin lending business. From 2010 to September 2013, other securities brokers rapidly expanded their margin loan portfolios. The total amount of outstanding of margin loans grew to Bt45 billion as of September 2013, from Bt16 billion in 2009. TSFC's margin loans, however decreased to Bt3,152 million. Its market share had ranged from 22% to 29% from 2006 through 2008. TSFC was badly affected by the financial crisis in 2008. As a result, its market share nosedived to 14% in 2009, and tumbled to 6% in September 2013. TSFC had a lower market share in its core business because it lost its competitive funding costs. The company is now attempting to expand its margin loan portfolio. However, the expansion poses some risk management challenges and exposes the company to a higher level of credit risk.

According to TSFC's business plan, the company has opportunities in new businesses, private REPO and SBL. However, it has not yet proved it can be successful in the new lines of business. The management team will need time to build-up its track record and achieve the market size goals stipulated in the business plan. TSFC's other fee and service incomes accounted only for Bt1 million of the total revenues in September 2013.

Rating Outlook

The “stable” outlook is based on TRIS Rating’s three key expectations: the stock market will move in a stable momentum with no unexpected downside risks in the medium term, and TSFC will be able to maintain its current financial performance and maintain its market share in margin lending. In addition, the outlook reflects the continuing support TSFC receives from the largest shareholder, SET.

TSFC Securities PLC (TSFC)

Company Rating:

BB+

Rating Outlook:

Stable

Financial Statistics

Unit: Bt million

	Jan-Sep 2013	Year Ended 31 December				
		2012	2011	2010	2009	2008
Total assets	3,165	3,360	3,092	3,182	3,955	8,705
Net Investment in securities	296	269	863	45	1,290	4,218
Loans and receivables	3,153	3,405	2,463	3,242	2,857	3,764
Allowance for doubtful accounts	366	394	394	395	464	464
Total borrowings	1,910	1,990	1,600	1,781	2,658	8,516
Shareholders' equity	1,163	1,142	1,151	1,159	1,159	62
Net interest and dividend income	106	105	113	152	148	186
Bad debts and doubtful accounts	(0.1)	(0.3)	(1)	44	(1)	262
Non-interest income	2	2	10	18	(1,009)	(623)
Operating expenses	87	118	120	112	146	174
Net income	21	(8)	1	(0.3)	(858)	(901)

Key Financial Ratios

Unit: %

	Jan-Sep * 2013	----- Year Ended 31 December -----				
		2012	2011	2010	2009	2008
Profitability						
Net interest income/average assets	3.25	3.25	3.59	4.27	2.33	1.24
Non-interest income/average assets	0.05	0.07	0.30	0.50	(15.95)	(4.17)
Operating expenses/total income	43.70	54.09	54.01	46.74	(19.62)	81.54
Operating profit/average assets	0.64	(0.33)	0.08	0.40	(15.91)	(5.85)
Return on average assets	0.64	(0.25)	0.03	(0.01)	(13.56)	(6.03)
Return on average equity	1.81	(0.71)	0.09	(0.03)	(140.57)	(82.21)
Asset Quality						
Non-performing loans/total loans	11.61	11.56	15.99	14.27	21.41	22.72
Bad debts and doubtful accounts/average loans	(0)	(0.01)	(0.04)	1.45	(0.02)	4.46
Allowance for doubtful accounts/total loans	11.62	11.57	15.99	12.18	16.23	12.34
Capitalization						
Shareholders' equity/total assets	36.75	34.00	37.21	36.42	29.30	0.71
Shareholders' equity/total loans	36.89	33.55	46.71	35.74	40.57	1.64
Liquidity						
Total loans/total assets	99.61	101.33	79.67	101.90	72.23	43.24
Liquid assets/total assets	9.49	8.16	28.51	1.96	33.91	56.17

* Non-annualized

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