

KGI SECURITIES (THAILAND) PLC

No. 99/2025
27 June 2025

FINANCIAL INSTITUTIONS

Company Rating: A
Outlook: Stable

Last Review Date: 20/06/24

Company Rating History:

Date	Rating	Outlook/Alert
18/06/19	A	Stable
27/07/16	A-	Stable
18/06/08	BBB+	Stable
12/07/04	BBB	Stable
23/01/04	BBB	-
26/11/01	BBB-	-

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RATIONALE

TRIS Rating affirms the company rating on KGI Securities (Thailand) PLC (KGI Thailand) at “A” with a “stable” outlook. The company rating incorporates a one-notch uplift from KGI Thailand’s stand-alone credit profile (SACP) assessed at “a-”. The enhancement is based on our assessment of KGI Thailand’s group status as a “strategic” affiliate of KGI Securities Co., Ltd. in Taiwan (KGI Taiwan, rated “BBB+/Stable” by S&P Global Ratings).

The SACP reflects KGI Thailand’s adequate business position, strong capitalization, and healthy profitability. At the same time, the company continues to maintain ample funding and liquidity. Although gains on financial instruments may be less stable during periods of high market volatility, they remain a significant and relatively stable part of the company’s revenue.

KEY RATING CONSIDERATIONS

Strategic affiliate of KGI Group

TRIS Rating assesses KGI Thailand as a “strategic” affiliate of KGI Taiwan, taking into account business support, ownership, and reputational risk. KGI Taiwan is the largest shareholder of KGI Thailand, maintaining a 34.97% stake through its wholly-owned subsidiary, KGI Asia (Holdings) Pte. Ltd.

The ownership is reflected in KGI Taiwan’s governance influence, with three of the nine board seats providing oversight of KGI Thailand’s operations and strategic direction. The company’s top management is appointed by KGI Thailand’s board of directors and was former executive of KGI Taiwan.

Additionally, KGI Taiwan has continuously provided business support and technical knowhow to KGI Thailand, which we expect to continue in the foreseeable future. The support has helped strengthen KGI Thailand’s overall businesses and position as a market leader in the derivatives business. KGI Thailand’s consistent performance and stable dividend contributions to the group further substantiate our view the company is an important member of the KGI Group.

Considering the shared brand identity, we also expect that KGI Taiwan has a reputational incentive to provide support to KGI Thailand in times of need, despite a lack of explicit support.

Revenue diversification supports healthy profitability

KGI Thailand continues to deliver strong and consistent profitability despite a prolonged slowdown in the brokerage business, caused by weak trading volumes and competitive pressure on commission rates over the years.

We estimate KGI Thailand’s profitability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), to be in a 3%-4% range in 2025-2027, compared with 3.2% in 2024.

This resilience is underpinned by the company’s well-diversified business model. KGI Thailand’s revenue is anchored by three core revenue streams: brokerage fees, fee and service income, and gains from financial instruments. Over the three-year average (2022-2024), these segments contributed 23%, 34%, and 33% of total revenue, respectively. While the relatively high proportion derived from gains on financial instruments compared to peers, exposes the company to earnings volatility, the risk is mitigated by its proven track record and expertise in managing market risk through hedging strategies.

Dominant position in derivative warrants market

TRIS Rating expects KGI Thailand to maintain its leading market position in derivative warrants (DW) over the medium term. In the first five months of 2025, the company ranked first in terms of DW trading value, capturing a market share of 49%. In terms of open interest (number of outstanding DW units that have been held by investors overnight), KGI Thailand's market share has been in the 50%-60% range over the past two years. The company has well-managed hedging strategies also help generate fairly stable gains on financial instruments, which support overall earnings.

Sluggish stock market dampens brokerage revenue

Similar to most peers, KGI Thailand's weakening brokerage business over the past four years has been impacted by the eroding trading volume of the Thai stock market. In 2024, total brokerage revenue fell by 17% year-on-year (y-o-y) to THB732 million. This represents a steady decline from the recent peak of THB1.3 billion in 2021.

Despite this, the company still managed to preserve its market positions with a revenue market share in securities brokerage of about 3% in 2024. The company also ranked third in Thailand Futures Exchange (TFEX) brokerage revenue with market share of 10%. Looking forward, we expect KGI Thailand to maintain its market position in the brokerage business; however, any recovery in brokerage revenue will largely depend on a revival in trading volumes of the Thai stock market.

Wealth business expansion to support growth in fee and service income

KGI Thailand's fee and service income has been another source of core revenue, primarily comprising fund management, wealth management, and investment banking (IB). In 2024, approximately 74% of its fee-based revenues derived from fund management fees, front-end fees, and selling agent fees. The majority of this fee and service income is generated by its subsidiary, One Asset Management Ltd. (ONEAM). As of the end of 2024, assets under management (AUM) totaled THB155.7 billion.

Over the next two years, KGI Thailand's strategic focus is on expanding its wealth management business to improve revenue from fund-related activities. As a result, we expect future growth in fee and service income to be largely driven by the fund management business. A critical success factor will be ONEAM's ability to launch attractive mutual fund products that capture investors' interests, especially given the company's relative disadvantage compared with asset management companies under banking groups, whose proprietary distribution channels are more extensive. To address this, the company is aiming to strengthen its wealth management to improve market penetration and better compete in the retail fund market.

IB business revenues (underwriting and financial advisory (FA) services) were THB73 million in 2024, with FA services contributing THB45 million, or 1.2% of total revenue. The Securities and Exchange Commission's (SEC) one-year suspension of KGI Thailand's financial advisory license has had a minimal impact on operations and does not affect the credit profile or rating on the company.

Strong capital position

We expect KGI Thailand to maintain its strong capital position. The company's capital position, as measured by the risk-adjusted capital ratio (RAC), improved progressively to 26.2% at the end of the first quarter of 2025 from 17.9% at end-2023. The improvement is due to profit accretion as well as subdued trading and margin lending activities. We expect the company's RAC ratio to remain in the 20%-25% range in 2025-2027. The net capital ratio (NCR) also remained healthy at 107% at the end of the first quarter of 2025, well above the minimum requirement of 7% and the internal minimum level of 28%.

Robust risk management framework

In our view, KGI Thailand possesses a prudent risk management framework, despite its moderately high-risk appetite. The company benefits from ongoing support and guidance from the KGI Group in areas such as product development, automated trading platforms, trading strategies, and risk management. Under the guidance of the group, the company has developed and applies its own risk management policies and procedures, which are tailored to the local operating environment.

Adequate funding profile and liquidity position

We expect KGI Thailand to maintain an "adequate" funding profile over the next two years. The company's gross stable funding ratio (GSFR), which compares available stable funding with stable funding needs, stood at a healthy level of 176% as of March 2025. We expect the ratio to stay above 130% over the next two years.

KGI Thailand's liquidity is also sufficient due to the ample credit facilities provided by various financial institutions. These credit facilities enhance the company's financial flexibility and should adequately support its existing operations as well as its expansion plans.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KGI Thailand's operations during 2025-2027 are as follows:

- Average commission rates to be approximately 3 basis points (bps).
- Operating expenses to net revenue to be in the 40% range.
- EBT/ARWA to range from 3%-4%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will continue to deliver satisfactory operating performance, maintain strong capitalization, and uphold adequate risk management practices.

RATING SENSITIVITIES

Credit upsides could develop from a sustained overall improvement in KGI Thailand's business position. Downward pressure on the ratings could occur if KGI Thailand's capitalization, as measured by the RAC ratio, weakens significantly on a prolonged basis, either from operating losses or a rapidly enlarged balance sheet stemming from aggressive business expansion.

Also, any change in the credit profile of the KGI Group or a change in TRIS Rating's view of the status of KGI Thailand to the KGI Group may affect the rating and/or outlook.

COMPANY OVERVIEW

KGI Thailand was established as Goldhill Securities Co., Ltd. in 1975. In 1987, Kasikorn Bank PLC (known as Thai Farmers Bank PLC at the time) and the Finance One Group took over the company and renamed it Securities One Co., Ltd. (S-ONE). The company was listed on the Stock Exchange of Thailand (SET) in 1989. Following the Asian financial crisis in 1997, the company suffered huge losses on its investments when a subsidiary, Thai Thamrong Finance PLC, and an affiliated company, Nithipat Finance PLC, were shut down in 1998. The Koos Group, a large Taiwanese conglomerate, assisted KGI Thailand with a debt restructuring program and became the major shareholder in 1998. The company was renamed KGI Securities (Thailand) PLC in 2001.

After the shareholding structure changed in 1998, KGI Thailand invested overseas through a wholly-owned subsidiary, KGI Securities (Thailand) International Holdings Ltd. (HOLDCO), which owned a 46.6% stake in KGI International Holdings Ltd. (KGII). KGII invested in securities firms in Hong Kong, South Korea, and the Philippines. In September 2000, KGII distributed its assets, including its stakes in its subsidiaries, to its shareholders, including HOLDCO. In early 2001, HOLDCO sold its equity stakes in the overseas subsidiaries back to KGII. To pay for the stakes, KGII issued USD35 million in secured convertible debentures and THB1.58 billion in secured debentures.

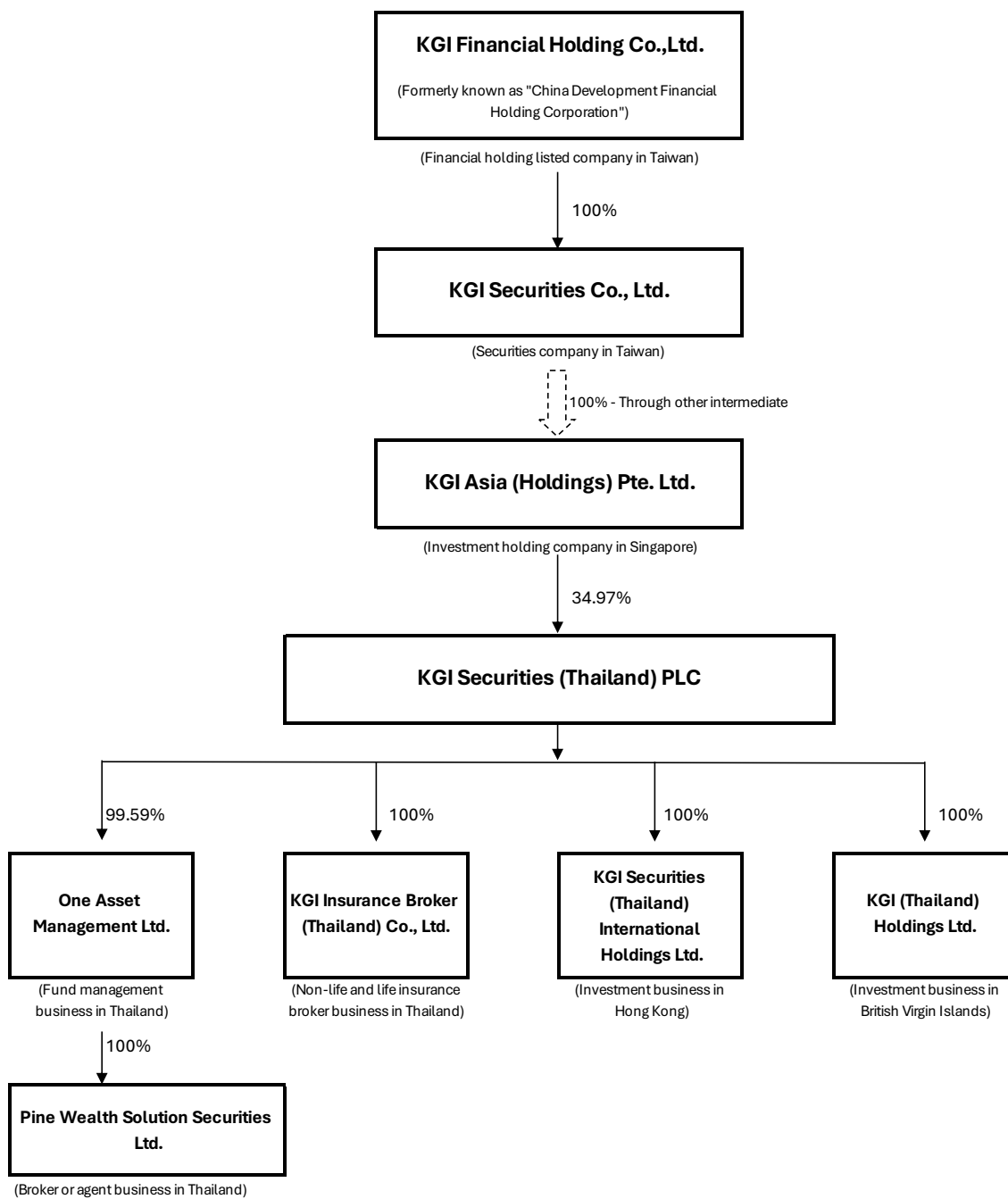
At the end of 2002, KGI Thailand retained a loss of THB7.52 billion. In 2003, the company reduced its capital to THB12.99 billion from THB17.33 billion, returning THB4.33 billion to shareholders. KGI Thailand sold the overseas debentures held by HOLDCO and used the proceeds to pay shareholders and repay all of its borrowings. KGI Thailand wiped out the accumulated loss by offsetting it with general reserves, legal reserves, and the share premium incurred from the reduction in par value.

KGI Thailand reduced its paid-up capital twice, in 2005 and 2006, to THB1.99 billion from THB14.94 billion, by reducing the par value to THB1 from THB7.5 per share. The company received a license from the Securities and Exchange Commission (SEC) authorizing it to act as an agent and dealer for futures trading once the TFEX opened in 2006.

KGI Thailand operates a full range of securities businesses: securities brokerage, securities dealing, investment banking, fixed income business, private repos, sales agent of unit trusts, futures brokerage, securities borrowing and lending, over-the-counter (OTC) derivatives, and DWs. It also owns a 99.59% stake in ONEAM, an asset management company that offers a full range of fund management services. As of March 2015, Richpoint Co., Ltd. was the company's major shareholder, owning a 34.97% stake.

On 30 October 2015, Richpoint transferred its entire shareholding in the company to KGI Asia (Holdings) Pte. Ltd., a company incorporated under the laws of Singapore in which KGI Taiwan indirectly owns its entire equity interest as part of the KGI Group's shareholding restructuring.

Chart 1: KGI Group Structure



Source: KGI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2025	-----Year Ended 31 December -----			
		2024	2023	2022	2021
Total assets	17,192	15,204	23,694	17,832	27,697
Net investment in securities	7,066	6,038	5,662	6,740	8,182
Total securities business receivables and accrued interest receivables	6,403	6,305	7,520	6,710	16,172
Allowance for doubtful accounts	521	521	521	474	247
Total debts	2,426	2,319	10,508	4,756	5,829
Shareholders' equity	8,090	7,893	7,634	7,473	7,540
Net securities business income	639	2,705	2,748	3,110	4,152
Total income	892	3,709	3,865	4,146	5,356
Operating expenses	394	1,631	1,625	1,657	1,934
Interest expense	32	154	144	76	78
Net income	198	866	870	1,006	1,861

Unit: %

	Jan-Mar 2025	-----Year Ended 31 December -----			
		2024	2023	2022	2021
Profitability					
Brokerage fees/total revenues	19.9	19.7	22.9	26.9	23.9
Fees and services income/total revenues	36.7	35.2	36.0	32.1	29.6
Gains from financial instruments/total revenues	32.5	33.4	30.9	34.6	41.7
Operating expenses/net revenues	45.7	45.9	43.7	40.7	36.6
Pre-tax margin	28.8	30.5	29.2	30.6	42.9
Return on average assets*	4.9	4.5	4.2	4.4	7.0
Earning before tax/risk-weighted assets*	3.3	3.2	2.7	2.5	4.2
Asset Quality					
Classified receivables/gross securities business receivables	16.9	8.3	7.1	7.8	1.5
Allowance for doubtful accounts/gross securities business receivables	8.1	8.3	6.9	7.1	1.5
Credit costs (reversal)	(0.0)	(0.0)	0.6	1.9	(0.1)
Capitalization					
Leverage ratio	46.2	47.8	29.2	37.2	21.6
Risk-adjusted capital	26.2	24.0	17.9	15.6	10.1
Funding and Liquidity					
Gross stable funding ratio	176.2	166.5	88.8	143.1	121.6
Liquidity coverage metric	2.31	1.79	0.85	1.20	1.06

* Annualized

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022

KGI Securities (Thailand) PLC (KGI)

Company Rating:	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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