

# KIATNAKIN PHATRA SECURITIES PLC

No. 60/2023  
18 April 2023

## FINANCIAL INSTITUTIONS

**Company Rating:** A  
**Outlook:** Stable

**Last Review Date:** 22/04/22

### Company Rating History:

Date	Rating	Outlook/Alert
26/04/19	A	Stable
26/04/18	A-	Positive
13/06/13	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Kiatnakin Phatra Securities PLC (KKPS) at “A” with a “stable” outlook. The rating primarily reflects the company’s status as a core subsidiary of Kiatnakin Phatra Capital PLC (KKP Capital), which in turn is a core entity under Kiatnakin Phatra Bank PLC (KKP, rated “A/stable”). The rating on KKPS is equivalent to the company rating on KKP.

## KEY RATING CONSIDERATIONS

### Core subsidiary of KKP

We consider KKPS a “core entity” of the KKP Group based on its important role as a capital market arm of the KKP Group. KKPS is a wholly owned subsidiary of KKP Capital, which is another core entity under KKP. KKPS has contributed around 20% on average to KKP’s profit in the past three years.

We view KKPS as having a high level of integration with KKP. The company’s board members and top management were appointed by KKP. KKPS’s strategy and risk management are strongly aligned with that of the group. Strong integration is also evident in the shared brand name, business referrals, and collaborations. KKPS also leverages the bank’s resources to offer its clients comprehensive financial products and services. We believe KKP will continue to provide strong business and financial support to KKPS as it is an integral part of the group’s long-term business strategy.

### Solid business position

We expect KKPS to maintain its well-built franchise in the capital market business. This is mainly underpinned by its long-established strong position in securities brokerage, wealth management and investment banking (IB). The company ranked fifth in terms of revenue market share in the securities brokerage business in the first half of 2022 (1H22). KKPS’s revenue market share stood at 6.3% in 1H22, up from 5.2% in 2021.

For the wealth management business, KKPS is a leading wealth manager in Thailand with asset under advisement (AUA) of THB742 billion at the end of 2022. The company’s AUA continuously expanded at a compound annual growth rate (CAGR) of 10.7% over the past five years. The strength of KKPS is attributed to its extensive financial services, experienced professionals, and multiple asset classes of product. For example, KKPS is a pioneer in the offshore private wealth products including private equity, real estate, and structured products.

KKPS also has a proven track record of success in IB by frequently leading the underwriting of several major initial public offering (IPO) transactions in Thailand. This is supported by a team of highly skilled and experienced professionals, broad range of services, and strong network of relationships. Moreover, the increased collaboration between KKP and KKPS including client referrals and bridge financing helps strengthen its IB franchise and deepening relationship with its clients. Fees income from IB has been strong, averaging THB505 million per annum or 37% of total fee income over the previous five years.

## Well-diversified sources of revenue

KKPS has a diverse revenue mix across business lines, including brokerage business, selling agent for mutual funds, IB, and derivatives. Revenue from the brokerage business accounted for around 40% of its total revenue in 2020-2022. The remainder are non-brokerage revenues including fees income, gain on investment, and others. Of total non-brokerage revenues, fee income from IB, and selling agent accounted for 21%. The company's securities brokerage business has also diversified across customer segments, helping to stabilize brokerage revenue. Of total securities brokerage revenue in 2022, 38% came from foreign investors, 26% from retail investors, and 36% from domestic institutions.

## Strengthened risk management policy

KKPS's risk policies align with those of KKP, with both coming under the Bank of Thailand's (BOT's) consolidated supervision. KKPS has limited credit risk as the company does not engage in margin lending. Its exposure to market risks is also limited to low-risk trading activities that mainly serve the purpose of arbitrage and hedging for the financial products it offers to clients.

In 2022, KKPS enhanced its risk management policies in relation to trading and settlement by tightening its customer screening process and collateral acceptance criteria. For customer screening, KKPS has revised its credit approval policy to incorporate more rigorous quantitative criteria and qualitative analysis. As for collateral, stocks with irregular price movements will not be accepted as collateral and will be added to its cash balance list, in addition to the list provided by the Stock Exchange of Thailand (SET).

## Ongoing financial support from KKP

The company's adequate funding and liquidity profile is mainly supported by ongoing financial supports from KKP, in the form of credit lines and subordinated loans. Also, the company has credit facilities from other financial institutions. At the end of January 2023, the company had credit facilities totaling THB4.6 billion, in addition to the credit line provided by KKP. The total amount of available credit facilities should be sufficient to fund the company's operations and cover any liquidity shortfalls should they occur.

## Securities brokers faced multiple risk factors

The slowdown in the average daily turnover in 2022 negatively impacted the performance of securities companies. Securities firms' earnings fell 67% year-on-year (y-o-y) in 2022 on poor market sentiment. This resulted in high market volatility and average daily turnover slowing down to THB77 billion, compared with THB94 billion in 2021. In 2023, political uncertainty resulting from Thailand's general election could pose a new threat to stock market participants. Also, concerns over recession fueled by the US Federal Reserve's continued rate hikes or the prolonged Russia-Ukraine war may continue to adversely affect securities trading conditions and volumes globally.

## BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that KKPS will remain a core subsidiary of KKP.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that KKPS will maintain its status as a core subsidiary of KKP and continue to receive strong support from its parent bank.

## RATING SENSITIVITIES

The rating and/or outlook of KKPS is equivalent to and moves in tandem with those of KKP. The weakening of KKPS's group status in TRIS Rating's view may result in a rating downgrade for KKPS.

## COMPANY OVERVIEW

PHATRA was spun off from Phatra Thanakit PLC in 1997, becoming a 99.99% owned subsidiary of Phatra Thanakit. Prior to the spin-off, its securities business had been conducted as a department within Phatra Thanakit since 1975. In 1998, PHATRA changed its name to Merrill Lynch Phatra Securities Co. Ltd. after Merrill Lynch & Co., Inc. (ML) and Kasikorn Bank PLC (KBANK) acquired 51% and 49% stakes in PHATRA, respectively. The company changed its name back to Phatra Securities PLC when ML and KBANK sold their combined stakes in Merrill Lynch Phatra Securities PLC to the current management team, employees, and selected investors in 2003. PHATRA became a public company and its shares were listed on the Stock Exchange of Thailand (SET) in 2005.

PHATRA has collaborated with ML since 2003. The alliance covers research, securities brokerage, and investment banking. In 2010, the company restructured. Phatra Capital was set up as a holding company and the Direct Investment (DI) portfolio was transferred from Phatra Securities to the newly set-up Phatra Capital. Phatra Capital was listed on the SET in place of

Phatra Securities. The restructuring had three goals: to separate the risks of the agency business and the principal investment business, to give PHATRA more flexibility for future expansion efforts and strategic partnership opportunities, and to minimize conflicts of interest between the agency and principal investment businesses.

As of May 2015, Phatra Capital held a 99.9% stake in Phatra Securities. Before the merger with KKP, PHATRA's expansion efforts were constrained by limitations on capital, size, and business scope inherent in PHATRA's securities business license. The development of, and competition in, the country's and the region's financial markets threatened PHATRA's long-term competitive position. As a result, in April 2012, PHATRA's shareholders approved the merger with KKP at the annual general meeting. In September 2012, the merger was successfully completed. KKP now holds 99.9% of Phatra Capital.

In August 2020, the company's name was changed to Kiatnakin Phatra Securities PLC (KKPS), following the name change of its parent company to Kiatnakin Phatra Bank PLC (KKP), to reflect seamless integration within the financial group.

**Chart 1: KKP Group's Structure as of 31 Dec 2022**



Source: KKPS

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	28,103	29,625	14,814	20,672	15,957
Net Investment in securities	15,877	15,318	4,666	9,361	5,271
Total securities business receivables and accrued interest receivables	8,670	10,996	6,838	4,620	4,213
Allowance for doubtful accounts	709	-	-	-	-
Total debts	10,921	10,224	1,853	8,949	3,058
Shareholders' equity	6,886	6,190	5,467	5,312	6,100
Net securities business income	3,553	4,184	3,145	2,744	2,971
Total income	4,931	5,367	3,954	3,390	3,549
Operating expenses	2,512	2,429	1,832	1,756	1,604
Interest expenses	146	57	52	77	177
Net income	684	1,772	1,217	926	1,197

*Unit: %*

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
<b>Profitability</b>					
Brokerage fees/total revenues	43.8	36.2	41.9	40.7	36.3
Fees and services income/total revenues	29.9	39.4	25.4	32.0	31.1
Gain (loss) from trading/total revenues	6.8	8.6	19.3	9.7	10.7
Operating expenses/net revenues	52.5	45.8	46.9	53.0	47.6
Pre-tax margin	18.0	41.8	39.1	34.8	44.4
Return on average assets	2.4	8.0	6.9	5.1	6.5
Earning before tax/risk-weighted assets	1.3	4.8	4.7	3.5	4.1
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	8.3	0.0	0.0	0.0	0.0
Allowance for doubtful accounts/gross securities business receivables	8.3	0.0	0.0	0.0	0.0
Credit costs (reversal)	7.3	0.0	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	21.3	14.9	28.6	21.2	30.8
Risk-adjusted capital	9.3	6.9	15.2	12.1	16.6
<b>Funding and Liquidity</b>					
Gross stable funding ratio	98.5	104.6	195.1	152.6	213.4
Liquidity coverage metric	1.2	1.1	2.1	1.0	1.7

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022

## Kiatnakin Phatra Securities PLC (KKPS)

<b>Company Rating:</b>	A
<b>Rating Outlook:</b>	Stable

### TRIS Rating Co., Ltd.

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