

THANACHART CAPITAL PLC

No. 20/2020
10 April 2020

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 10/10/19

Company Rating History:

Date	Rating	Outlook/Alert
14/03/19	A+	Alert Negative
16/01/12	A+	Stable
12/03/10	A	Positive
14/07/05	A	Stable

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RATIONALE

TRIS Rating removes the “CreditAlert” with a “negative” implication placed on the company and issue ratings of Thanachart Capital PLC (TCAP). Simultaneously, TRIS Rating downgrades the company rating on TCAP to “A” with a “stable” outlook. The ratings on TCAP’s senior unsecured debentures are the same as the company rating. The rating actions reflect TCAP’s group restructuring in relation to the merger of TMB Bank PLC (TMB) and Thanachart Bank PLC (TBANK) in December 2019.

The ratings are underpinned by strong and diversified revenue contributions from TCAP’s key subsidiaries, low leverage, adequate risk management, and satisfactory funding and liquidity.

Our assessment of TCAP’s business position on a consolidated basis incorporates its stability and diversified revenue sources. This primarily reflects the strong market positions and relatively stable earnings of its major consolidated businesses, comprising the leasing business of Ratchthani Leasing PLC (THANI), the securities brokerage business of Thanachart Securities PLC (TNS), and the non-life insurance business of Thanachart Insurance PLC (TNI). TCAP’s sources of operating income include the share of profits from commercial banking given its 20% stake in TMB and the operating income from THANI, TNS, and TNI.

TRIS Rating expects TCAP to maintain its strong capital position, measured by the debt to equity (D/E) ratio, and adequate earnings capability over the next two years. We expect TCAP’s D/E ratio to stay below 1.5 times over the next two years, compared with 1.2 times, as of end-2019. Our forecast assumes that TCAP’s outstanding debenture outstanding will be around Bt13 billion over the next two years, declining from Bt17.9 billion at end-2019. We also expect its subsidiaries to maintain strong capital in the medium term. In terms of earnings capability, we estimate TCAP’s normalised return on average assets (ROAA) to sustain at a level above 3.5% in 2020-2022.

TCAP’s overall risk position is adequate. As of end-2019, 80% of TCAP’s investments are in government and state enterprise securities. As for the risk position at the subsidiary level, we assess the risk management policy of each of its main subsidiaries individually. TNS’s moderate exposure to margin loans, prudent credit control, and market-neutral investment strategies should help contain risks inherent in the securities businesses. Although THANI is exposed to the higher risk segment of the credit market, we hold the view that the company maintains relatively conservative credit policies and adequate provisions.

TCAP’s funding profile is strong. We forecast a consolidated stable funding ratio (SFR) of around 110% over the next two years. As of end-2019, equity made up around 75% of TCAP’s available stable funding, while the remainder is made up of long-term debentures with a diversified maturity profile. Stable funding needs (SFN) comprised investments in subsidiaries and associate companies (50%), the non-current portion of loans (35%), and foreclosed assets (4%).

We assess TCAP to have adequate liquidity over the next 12 months. At the non-consolidated level, we foresee no asset-liability concentration. We also forecast the consolidated liquidity coverage measure (LCM) to be near 100%.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

As of end-2019, broad liquid assets comprised short-term government and state enterprise securities, corporate bonds and interbank lending. Short-term funding sources comprised interbank borrowings and a majority of debt issued and borrowings at subsidiary company levels.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TCAP will be able to maintain strong capital, prudent risk management, diversified investment exposure, and healthy funding and liquidity profiles.

RATING SENSITIVITIES

The potential for a rating upgrade is low at this point. However, a rating downward is possible if TCAP's capital, measured by D/E ratio rises above 1.5times, and/or its funding and liquidity profiles deteriorate significantly.

COMPANY OVERVIEW

In April 2005, under the BOT's “one presence” policy, TCAP became a financial holding company of TBANK and eight other subsidiaries, including Thanachart Securities PLC (TNS), Thanachart Insurance PLC (TNI), Thanachart Life Assurance PLC (TLIFE), Thanachart Fund Management Co., Ltd. (TFUND), Thanachart Broker Co., Ltd., Thanachart Group Leasing Co., Ltd., Thanachart Management & Services Co., Ltd., and Thanachart Legal and Appraisal Co., Ltd. TCAP owned TBANK and two asset management companies, NFS Asset Management Co., Ltd. (NFS-AMC) and MAX Asset Management Co., Ltd. (MAX-AMC).

In July 2007, TCAP signed a joint venture agreement with a new strategic partner, Bank of Nova Scotia (BNS), to invest in TBANK. In April 2010, TBANK acquired a 99.98% stake in Siam City Bank (SCIB). In October 2011, all the assets, liabilities, and other financial commitments of SCIB were transferred to TBANK, and SCIB discontinued its operations. As of June 2013, TCAP held a 50.96% stake in TBANK while BNS held 49%.

Effective in May 2013, TBANK sold its life insurance business, TLIFE, to Prudential Life Assurance (Thailand) PLC (PRU) for approximately Bt17.5 billion. In addition, TBANK signed a 15-year exclusive agreement with PRU and is now PRU's business partner in banc-assurance services. On 2 June 2014, TBANK sold all the shares of Siam City Life Assurance PLC (SCILIFE), a subsidiary it received in the SCIB acquisition, to TCAP and MBK PLC (MBK, rated “A” by TRIS Rating). The transaction was worth Bt900 million. At the end of June 2015, TCAP held a 51% stake in SCILIFE, while MBK held 49%.

In April 2015, TBANK completed the liquidation process of SCIB, one of its subsidiaries. The liquidation generated tax losses, a part of which the bank has utilized as income tax savings.

On 26 February 2019, signing of a non-binding MOU by five parties outlined a merger between TMB and TBANK. The five parties included TMB, TBANK, TCAP, ING, and BNS. As the merger focuses on TBANK's banking business, TBANK was required to divest its holdings in its subsidiaries and other investments to TBANK's shareholders based on the respective shareholdings (TCAP 51%; BNS 49%). The subsidiaries include TNS, THANI, TNI, and TS Asset Management Co., Ltd (TS AMC).

In December 2019, TMB and TBANK completed the share purchases and TBANK became a wholly-owned subsidiary of TMB. As of end-2019, TCAP held a 20.1% share in TMB. Shareholdings in other key subsidiaries include effective 55.5% shares in THANI (via 100% shares in SPV1), 51% in TNS, and 51% in TNI.

RELATED CRITERIA

- Nonbank Financial Institutions Rating Methodology, 17 February 2020

Thanachart Capital PLC (TCAP)

Company Rating:	A
Issue Ratings:	
TCAP20NA: Bt2,900 million senior unsecured debentures due 2020	A
TCAP22NA: Bt3,000 million senior unsecured debentures due 2022	A
TCAP238A: Bt500 million senior unsecured debentures due 2023	A
TCAP230A: Bt1,300 million senior unsecured debentures due 2023	A
TCAP258A: Bt900 million senior unsecured debentures due 2025	A
Rating Outlook:	Stable

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