TRIS RATING
CreditNews ข่าวเครดิต

THANACHART CAPITAL PLC

No. 97/2014 6 November 2014

Company Rating: A+

Issue Ratings:
Senior unsecured A+

Outlook: Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's existing senior unsecured debentures at "A+". The ratings are based on TCAP's position as the investment holding company of the Thanachart Group, its management control through a 50.96% ownership stake of Thanachart Bank PLC (TBANK), the core bank subsidiary, and the stable stream of dividends from TBANK. The ratings take into consideration TBANK's strong franchise in auto hire-purchase lending and the support TBANK receives from its Canadian strategic partner, Bank of Nova Scotia (BNS), which holds a 49% stake in TBANK through Scotia Netherlands Holdings B.V. However, the ratings are partially offset by TCAP's weak asset quality, relatively low but rising reserves for loan losses, and the current slowdown in the Thai economy.

TCAP's company rating is one notch lower than the company rating of TBANK (AA-). The one notch difference reflects the structural subordination of TCAP's obligations to those of TBANK, TCAP's reliance on dividends from TBANK, and the supervisory barrier which may affect TBANK's ability to pay dividends.

Based on consolidated asset size as of June 2014, TCAP was ranked sixth among all 16 Thai commercial banks, with a 7.6% market share in loans and a 6.9% market share in deposits. In terms of revenues, the banking segment contributed approximately 80% of the consolidated net operating income of TCAP. The remainder was from the operations of other segments, such as leasing, securities, fund management, and distressed asset management.

TBANK has granted new loans more prudently because the Thai economy has slowed down and auto sales remain sluggish. As a consequence, TCAP's consolidated loans expanded only by 5% in 2013, compared with 19% in 2012. As of June 2014, TCAP's loans and receivables amounted to Bt784.1 billion, contracting by 1% from the December 2013 level. TCAP's risk profile is still hurt by a high level of non-performing assets (NPA; the sum of non-performing loans (NPLs), plus restructured loans and foreclosed property). Some of the NPAs came to TBANK when it bought Siam City Bank PLC's (SCIB) loan portfolio. NPLs declined in 2012, but rebounded in 2013 through the first half of 2014 as the economy worsened. At the end of June 2014, the consolidated amount of NPLs totaled Bt38.4 billion, rising from Bt34.3 billion in 2012. The ratio of NPLs to total loans climbed from 4.5% in 2012 to 4.9% in June 2014. In 2013, TBANK set aside additional provisions for loan losses so as to strengthen its cushion of reserves. However, TBANK's excess reserves for loan losses remain lower than its peers. TCAP's NPL coverage ratio (loan loss reserves as a percentage of NPLs) was 84%, far lower than the industry average. TCAP faces a continuing challenge to control its NPLs and to add its cushion of reserves for loan losses.

TCAP's financial performance has improved after the smooth post-merger integration of TBANK and SCIB. Net interest income and non-interest income has increased, while operating costs have been under control. However, TCAP's credit cost rose as its loan quality deteriorated. In 2013, TCAP delivered net income of Bt17.0 billion, up by 73% year-on-year (y-o-y). The sharp rise in net profit was largely due to the net effect from two extraordinary gains by TBANK: a one-time gain from divesting the life insurance segment, and extra provisions for loan losses. Despite the improvements in its financial performance, TCAP's profitability remains relatively weak compared with its peers. TCAP's return on average assets (ROAA), excluding the extraordinary items, remained lower than the industry average.

TCAP has a sufficient capital base to support its expansion efforts over the next few years. As of June 2014, the company reported a Tier-1 capital ratio (on a fully consolidated basis) of 8.88% and a total capital ratio of 13.66%. These two ratios were above the minimum requirements of 6.00% and 8.50% set by the Bank of Thailand (BOT).

Rating Outlook

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will be able to leverage the synergies among TBANK and BNS to strengthen its competitive positions in its core lines of business. The strong support and business know-how received from the major shareholders, TCAP and BNS, will enhance TBANK's overall business and financial performance in the future.

Thanachart Capital PLC (TCAP)

Company Rating:	A+
Issue Ratings:	
TCAP14NA: Bt9,000 million senior unsecured debentures due 2014	A+
TCAP18NA: Bt3,100 million senior unsecured debentures due 2018	A+
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+
TCAP23OA: Bt1,300 million senior unsecured debentures due 2023	A+
TCAP258A: Bt900 million senior unsecured debentures due 2025	A+
Rating Outlook:	Stable

Financial Statistics*

Unit: Bt million

		----------------------------- Year Ended 31 December --------------------------				
	Jan-Jun 2014	2013	2012	2011	2010	2009
Total assets	1,021,546	1,050,914	1,026,679	895,157	882,757	459,965
Investment in securities	140,765	150,075	152,456	154,184	147,615	97,112
Loans and receivables	784,089	792,190	756,403	638,084	610,602	289,424
Allowance for doubtful accounts	31,123	30,773	24,891	27,286	27,959	10,534
Deposits	712,920	715,931	693,421	435,865	532,382	265,871
Borrowings**	163,444	190,372	177,283	322,804	225,262	118,245
Shareholders' equity	99,104	95,439	85,234	75,681	71,720	47,407
Net interest income	13,798	26,557	23,295	24,315	23,029	14,148
Bad debts and doubtful accounts	3,815	11,511	2,900	2,077	1,653	2,849
Non-interest income	7,494	29,258	13,973	11,916	11,400	9,777
Operating expenses	10,972	23,366	23,383	22,246	17,630	10,912
Net income	5,157	17,004	9,838	8,772	10,302	7,175

* *Consolidated financial statements*
** *Including interbank and money market*

Key Financial Ratios*

Unit: %

		------------------------- Year Ended 31 December ------------------------				
	Jan-Jun 2014	2013	2012	2011	2010	2009
Profitability						
Net interest income/average assets	1.33**	2.56	2.42	2.74	3.43	3.31
Non-interest income/average assets	0.72**	2.82	1.45	1.34	1.70	2.29
Fees and service income***/total income	11.45	13.28	13.83	12.73	12.39	15.70
Operating expenses/total income	31.97	28.03	37.08	39.60	37.97	34.22
Operating profit/average assets	0.63**	2.02	1.14	1.34	2.26	2.38
Return on average assets	0.50**	1.64	1.02	0.99	1.53	1.68
Return on average equity	5.30**	18.82	12.23	11.90	17.30	17.99
Asset Quality						
Non-performing loans/total loans	4.90	4.74	4.54	6.20	6.46	4.06
Non-performing assets/total assets	7.29	7.27	7.59	10.16	9.16	5.50
Bad debts and doubtful accounts/average loans	0.48**	1.49	0.42	0.33	0.37	1.00
Allowance for doubtful accounts/total loans	3.97	3.88	3.29	4.28	4.58	3.64
Capitalization						
Shareholders' equity/total assets	9.70	9.08	8.30	8.45	8.12	10.31
Shareholders' equity/total loans	12.64	12.05	11.27	11.86	11.75	16.38
BIS ratio	13.66	14.31	12.07	12.53	13.08	18.00
Liquidity						
Total loans/deposits****	109.98	110.64	108.31	97.58	90.87	86.53
Deposits****/total liabilities	77.29	74.93	74.18	79.80	82.85	81.07
Total loans/total assets	76.76	75.38	73.67	71.28	69.17	62.92

* *Consolidated financial statements*
** *Non-annualized*
*** *Including net insurance premium/life insurance premium income*
**** *Including bills of exchange*

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