

# THANACHART CAPITAL PLC

No. 155/2017

16 November 2017

**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 senior unsecured debentures at "A+". The ratings are based on TCAP's position as a holding company of the Thanachart Group, its management control of Thanachart Bank PLC (TBANK) – its core bank subsidiary – through a 50.96% ownership stake, and the stable stream of dividends it receives from TBANK. The ratings take into consideration the overall strength of the Thanachart Group, particularly in auto hire-purchase lending.

TCAP's company rating is one notch below 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 constrain TBANK's ability to pay dividends.

Our assessment of TCAP's business position reflects its status as a holding company of a diversified financial services group. Key subsidiaries comprise TBANK, its commercial bank subsidiary, and other financial service businesses, including securities brokerage, fund management, leasing, and life and non-life insurance. TCAP's total asset size was Bt980.4 billion at the end of the first half of 2017 (H1/2017), ranked 6th across Thai commercial banks. TBANK is a mid-sized Thai commercial bank with strength in retail banking, notably auto hire-purchases. Market shares on loans and deposits were, respectively, 5.9% and 5.7%. At the end of 2016, TBANK and its other non-bank subsidiaries had a combined market share in hire-purchase loans of 21%, the largest among hire-purchase players, based on TRIS Rating's database.

We expect TCAP's Basel-III compliant total capital ratio to be within a 16-17% range over the next few years, sufficient to support its business expansion over the medium term. Core Equity Tier-1 to total capital was 73.7% at the end of H1/2017. We expect the company to maintain its current pay-out ratios. Profitability has been on par with the Thai banking industry average. Return on average assets (ROAA) was 1.28% in 2016, compared with the industry average of 1.32%. Profitability has improved over the past few years, thanks to lower credit costs. Non-interest income has derived from relatively diversified fee-based businesses, including securities brokerage, fund management, and insurance.

Our assessment of TCAP's risk position largely reflects TBANK's continuing progress in improving its risk management as reflected in improving trends in asset quality and loan-loss provisioning. Credit costs dropped from 1.5% in 2013 to 0.9% in 2016, whilst the industry average rose amid soft economic environments. Credit costs across Thai commercial banks averaged 1.4% in 2016. TCAP's NPL ratio dropped substantially from 4.5% to 2.4% between the end of 2014 and H1/2017. Special-mentioned loans as a percentage of total loans also dropped to 3.7% from 4.6% in the same period. Loan-loss provisioning has strengthened, as evidenced by TCAP's over-reserve position at 204% at the end of 2016, well above the industry average.

TCAP's funding and liquidity position is adequate, reflecting that of TBANK's position as a mid-sized bank. Deposits comprised 71.2% of total funding including shareholders' equity at the end of H1/2017, around the average of Thai commercial banks. However, a relatively high reliance on fixed deposits may indicate a price-sensitive deposit base. Current account-savings account (CASA), an indicator of stable low-cost funding, stood at 43.5% of total deposits including bills of exchange (B/Es), below peers' average of 61%. Loan-to-deposit was 105% at the end of H1/2017, which was around peers' average of 99%. TCAP's liquidity positions are in line with the Thai banking industry. Liquid assets as a percentage of total assets and deposits including B/Es were 26.1% and 38.4%, respectively, as of H1/2017, comparable to other Thai banks.

### Rating Outlook

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will maintain its strong competitive position in its core line of business in auto hire-purchase lending. TCAP's credit profile could be negatively impacted if TBANK's asset quality deteriorates or its profitability significantly weakens. Any positive rating action will depend on TBANK's ability to substantially lift its business position through size of client base, product diversity in credit-related businesses, and funding capability.

### Thanachart Capital PLC (TCAP)

|                                                                |        |
|----------------------------------------------------------------|--------|
| <b>Company Rating:</b>                                         | A+     |
| <b>Issue Ratings:</b>                                          |        |
| 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+     |
| TCAP230A: Bt1,300 million senior unsecured debentures due 2023 | A+     |
| TCAP258A: Bt900 million senior unsecured debentures due 2025   | A+     |
| <b>Rating Outlook:</b>                                         | Stable |

**Financial Statistics<sup>1</sup>**

Unit: Bt million

|                                          |                              | ----- Year Ended 31 December ----- |           |           |           |
|------------------------------------------|------------------------------|------------------------------------|-----------|-----------|-----------|
|                                          | Jan-Jun<br>2017 <sup>2</sup> | 2016                               | 2015      | 2014      | 2013      |
| Total assets                             | 980,426                      | 966,867                            | 997,581   | 1,025,630 | 1,050,914 |
| Average assets                           | 973,647                      | 982,224                            | 1,011,605 | 1,038,272 | 1,038,796 |
| Investment in securities                 | 196,051                      | 189,818                            | 186,915   | 164,735   | 150,075   |
| Loans and receivables                    | 696,932                      | 692,676                            | 715,295   | 756,444   | 792,190   |
| Allowance for doubtful accounts          | 23,274                       | 25,153                             | 26,240    | 28,347    | 30,467    |
| Deposits                                 | 665,968                      | 676,456                            | 669,454   | 696,949   | 715,931   |
| Borrowings <sup>3</sup>                  | 144,474                      | 127,405                            | 170,529   | 178,557   | 190,372   |
| Shareholders' equities                   | 124,524                      | 119,851                            | 111,323   | 104,276   | 95,439    |
| Average equities                         | 122,188                      | 115,587                            | 107,799   | 99,858    | 90,337    |
| Total revenue                            | 21,982                       | 43,614                             | 42,915    | 42,677    | 55,661    |
| Net interest income                      | 14,321                       | 28,468                             | 27,730    | 27,465    | 26,493    |
| Allowance for impairment losses on loans | 2,221                        | 6,210                              | 8,600     | 7,084     | 11,420    |
| Net fee and service income <sup>4</sup>  | 3,921                        | 8,547                              | 7,508     | 7,631     | 8,394     |
| Gains on investments                     | 540                          | 1,061                              | 1,956     | 1,098     | 13,592    |
| Non-interest income <sup>4</sup>         | 7,661                        | 15,146                             | 15,185    | 15,212    | 29,168    |
| Operating expenses                       | 12,517                       | 23,940                             | 23,029    | 22,599    | 23,303    |
| Net income                               | 6,730                        | 12,611                             | 11,060    | 10,436    | 17,004    |

1 Consolidated financial statements

2 Non-annualised

3 Including interbank and money market

4 Including net insurance income

### Key Financial Ratios<sup>1</sup>

Unit: %

|                                                        | Jan-Jun<br>2017 <sup>2</sup> | ----- Year Ended 31 December ----- |        |        |        |
|--------------------------------------------------------|------------------------------|------------------------------------|--------|--------|--------|
|                                                        |                              | 2016                               | 2015   | 2014   | 2013   |
| <b>Earnings</b>                                        |                              |                                    |        |        |        |
| Return on average assets                               | 0.69                         | 1.28                               | 1.09   | 1.01   | 1.64   |
| Return on average equities                             | 5.51                         | 10.91                              | 10.26  | 10.45  | 18.82  |
| Net interest income/average assets                     | 1.47                         | 2.90                               | 2.74   | 2.65   | 2.55   |
| Non-interest income <sup>3</sup> /average assets       | 0.79                         | 1.54                               | 1.50   | 1.47   | 2.81   |
| Net fee and service income <sup>3</sup> /total revenue | 17.84                        | 19.60                              | 17.50  | 17.88  | 15.08  |
| Gains on investments/total revenue                     | 2.46                         | 2.43                               | 4.56   | 2.57   | 24.42  |
| Operating expenses/total revenue                       | 56.94                        | 54.89                              | 53.66  | 52.95  | 41.87  |
| Cost-to-income                                         | 53.66                        | 51.66                              | 50.54  | 49.69  | 38.93  |
| <b>Capitalisation</b>                                  |                              |                                    |        |        |        |
| CET-1 ratio <sup>4</sup>                               | 12.09                        | 11.30                              | 10.29  | 9.03   | 0.00   |
| Tier-1 ratio <sup>4</sup>                              | 12.09                        | 11.30                              | 10.29  | 9.37   | 9.07   |
| BIS ratio <sup>4</sup>                                 | 16.40                        | 15.59                              | 14.71  | 13.59  | 14.31  |
| CET-1/BIS ratio <sup>4</sup>                           | 73.72                        | 72.48                              | 69.95  | 66.45  | 0.00   |
| <b>Asset Quality</b>                                   |                              |                                    |        |        |        |
| Credit costs                                           | 0.32                         | 0.88                               | 1.17   | 0.91   | 1.47   |
| Non-performing loans/total loans <sup>5</sup>          | 2.36                         | 2.50                               | 3.16   | 4.47   | 4.74   |
| Allowance for loan losses/non-performing loans         | 141.56                       | 145.49                             | 116.21 | 83.95  | 81.16  |
| Allowance for loan losses/required allowance           | 211.25                       | 222.89                             | 173.85 | 146.87 | 136.78 |
| <b>Funding &amp; Liquidity</b>                         |                              |                                    |        |        |        |
| CASA ratio <sup>6</sup>                                | 43.54                        | 45.58                              | 40.13  | 35.76  | 34.63  |
| Loan-to-deposit ratio <sup>6</sup>                     | 104.65                       | 102.40                             | 106.85 | 108.53 | 110.64 |
| Deposits/total liabilities <sup>6</sup>                | 77.81                        | 79.86                              | 75.54  | 75.65  | 74.93  |
| Liquid assets/total deposits <sup>7</sup>              | 34.31                        | 33.38                              | 33.91  | 31.52  | 29.59  |
| Total loans/total assets                               | 71.08                        | 71.64                              | 71.70  | 73.75  | 75.38  |

1 Consolidated financial statements

3 Non-annualised

3 Including net insurance income

4 Consolidated basis

5 Excluding bills of exchange and interbank borrowing

6 Including bills of exchange

7 Including bills of exchange and interbank borrowing

### TRIS Rating Co., Ltd.

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