

# KIATNAKIN PHATRA SECURITIES PLC

No. 61/2024  
24 April 2024

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 18/04/23

### 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 view KKPS as a core entity of the KKP Group. KKPS is a wholly-owned subsidiary of KKP CAPITAL, which is a core entity of KKP. The company plays an important role as a capital market arm of the KKP Group and has contributed around 20% on average to KKP’s profit over the past three years.

KKPS is highly integrated with KKP. Its business strategy, financial targets, and risk management are influenced by KKP through the board of directors and top management. Around 20% of its active securities trading accounts are referred by KKP. KKPS also utilizes KKP’s bank branch network and personnel to deliver a wide range of financial products and services to its clients.

We believe KKP will maintain a strong and long-term commitment with KKPS, encompassing both business and financial support. This is given the company’s integral role in the group’s long-term business strategy.

### Well-established business position

In our view, KKPS has a strong and well-established business position in capital market businesses including wealth management services, institutional brokerage, and investment banking (IB).

KKPS is a leading wealth manager in Thailand with asset under advisement (AUA) of THB750 billion as of end-2023 with the acquisition of net new assets totaling THB58 billion in 2023. The key competitiveness of its wealth management services lies in its comprehensive financial advisory services and asset class offerings as well as a team of experienced professionals. Notably, KKPS is a pioneer in the offshore private wealth products, particularly in private equity and structured products.

For securities brokerage businesses, KKPS’s revenue market share was 7.6% in the first half of 2023 (1H23), relatively stable compared with the level in 2022. The company has a strong market position in the domestic institution segment, with a revenue market share of 13% in 2023, the highest among our rated securities brokerage companies. This is underpinned by its highly experienced research team and efficient sales team.

Also, KKPS has strengthened its market standing in the foreign investor segment over the past two years by actively engaging with program trading. The company’s revenue market share in the foreign investor segment gradually increased to 18.0% in 2023 from 16.5% in 2022.

### Well-diversified revenue streams

In 2023, KKPS experienced a modest decrease in revenue by 3.1%, outperforming the industry average of a 13.7% decline in revenue. This resilience can be attributed to the company’s diversified revenue streams.

KKPS's non-brokerage revenues, such as fee income, investment gains, and other channels, have played a crucial role in mitigating the impact of market downturns. Revenue from the brokerage business constituted around 40% of its total revenue from 2021 to 2023, lower than the industry average of around 50%.

### **Risk management aligned to the group**

KKPS continues to adhere to KKP Group's risk management policy, under the Bank of Thailand's (BOT) consolidated supervision. KKPS has limited credit risk as the company does not engage in margin lending. In general, its exposure to market risks is limited to low-risk trading activities that mainly serve the purpose of arbitrage and hedging for the financial products it offers to clients. However, the recent increase in directional investment in both listed and non-listed companies could expose the company to greater market risks.

### **Ongoing financial support from KKP**

We expect KKPS will continue to receive financial support from KKP in the forms of credit lines and subordinated loans. Furthermore, the company also has access to credit facilities from other financial institutions. At the end of January 2024, the company had credit facilities amounting THB4.5 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 that may arise.

### **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 on KKPS are equivalent to and move in tandem with those of KKP. The weakening of KKPS's group status in TRIS Rating's view may result in a downgrade for its rating.

### **COMPANY OVERVIEW**

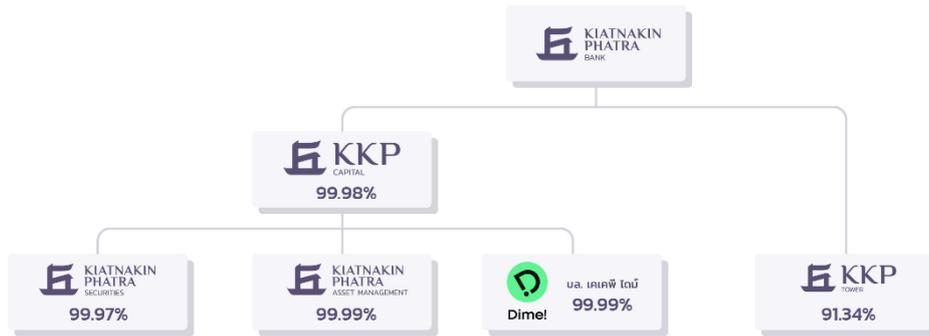
Phatra Securities (PHATRA) was spun off from Phatra Thanakit PLC in 1997, becoming a 99.99% owned subsidiary of Phatra Thanakit. Prior to the spin-off, its securities business had been conducted as a department within Phatra Thanakit since 1975. In 1998, PHATRA changed its name to Merrill Lynch Phatra 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 IB. In 2010, the company restructured. Phatra Capital PLC 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 19 April 2023



Source: KKPS

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	19,675	27,938	29,625	14,814	20,672
Net Investment in securities	7,693	15,877	15,318	4,666	9,361
Total securities business receivables and accrued interest receivables	6,170	8,504	10,996	6,838	4,620
Allowance for doubtful accounts	709	709	-	-	-
Total debts	-	5,070	7,170	370	3,270
Shareholders' equity	7,509	6,886	6,190	5,467	5,312
Net securities business income	2,961	3,595	4,184	3,145	2,744
Total income	4,777	4,931	5,367	3,954	3,390
Operating expenses	2,712	2,512	2,429	1,832	1,756
Interest expenses	113	146	57	52	77
Net income	1,059	684	1,772	1,217	926

Unit: %

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
<b>Profitability</b>					
Brokerage fees/total revenues	31.8	43.8	36.2	41.9	40.7
Fees and services income/total revenues	32.7	29.9	39.4	25.4	32.0
Gain (loss) from trading/total revenues	13.5	6.8	8.6	19.3	9.7
Operating expenses/net revenues	58.1	52.5	45.8	46.9	53.0
Pre-tax margin	28.7	18.0	41.8	39.1	34.8
Return on average assets	4.4	2.4	8.0	6.9	5.1
Earning before tax/risk-weighted assets	2.6	1.4	4.8	4.7	3.5
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	11.5	8.3	0.0	0.0	0.0
Allowance for doubtful accounts/gross securities business receivables	11.5	8.3	0.0	0.0	0.0
Credit costs (reversal)	0.0	7.3	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	34.9	23.8	14.9	28.6	21.2
Risk-adjusted capital	17.0	10.9	6.9	14.5	12.1
<b>Funding and Liquidity</b>					
Gross stable funding ratio	141.5	102.0	104.6	195.1	152.6
Liquidity coverage metric	2.1	1.2	1.1	2.1	1.0

## 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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