

## SCB Securities Company Limited

## Update

## Ratings

## National

Long-Term Rating  
Short-Term RatingAA-(tha)  
F1+(tha)

## Outlook

National Long-Term Rating      Stable

## Financial Data

## SCB Securities Company Limited

	31 Dec 12	31 Dec 11
Total assets (USDm)	194.6	103.9
Total assets (THBm)	5,960.4	3,292.7
Total equity (THBm)	2,217.6	2,194.9
Net income (THBm)	208.7	237.3
ROAA (%)	4.5	7.4
ROAE (%)	9.5	10.9
Equity/assets (%)	37.2	66.7

## Key Rating Drivers

**Parental Support Underpins Ratings:** SCB Securities Company Limited's (SCBS) ratings are based on Fitch Ratings' expectation of a high probability of extraordinary support from parent Siam Commercial Bank Public Company Limited (SCB, AA(thai)/Stable). SCB controls SCBS's strategy, operations, and branding, with full ownership and board representation. The one-notch rating differential between SCBS and SCB reflects SCBS's relatively small contribution to SCB's profits and status as a non-bank entity.

**Equity Arm of SCB:** SCBS is one of SCB's four main subsidiaries supporting SCB's universal banking platform. It is positioned as the brokerage and equity-capital market arm, performing an underwriting role for equity deals originated by SCB's investment banking. There are increasing efforts to expand SCBS's brokerage retail segment by taking advantage of SCB's branch network and online portal.

SCBS and SCB have a high level of operational integration; this is reflected in SCBS sharing SCB's key support functions, for example risk management, human resources, accounting and finance, audit and compliance, and IT.

**Moderate Market Position:** SCBS's brokerage market share remained moderate at 3.3% in H113 – ranking 15 out of 38 active brokers in Thailand, up from 2.8% in 2012. This was due to a larger volume from existing customers in the local institution and retail segments, and a growing retail customer base. SCBS's brokerage retail client base increased to 65% in H113 from 56% in 2012, more in line with the industry (H113: 69%). SCBS aims to tap into SCB's distribution network for a wider market reach.

**Volatile Earnings:** SCBS's financial performance is sensitive to trading volumes in the Thai stock market – one recent threat was from foreign capital flows. SCBS's revenue depends heavily on brokerage commission (average 82% of total revenue in 2009-2012). However, its cost structure seems flexible (50% of personnel costs are performance-driven) – and it has no debt, with low proprietary and margin loans. Its 2013 profit should rise in tandem with stock market trading volume; average daily market trading value in H113 almost doubled from 2012.

**Sound Funding and Liquidity:** SCBS is almost debt-free, and has a net-cash position. Its liquidity has remained sound, with liquid assets at 42% of total liabilities. Its average net liquid capital ratio is 77% year-to-date – much higher than the regulatory requirement of 7%. SCB has provided short-term loan facilities of THB340m and a subordinated debt programme of THB2bn to SCBS; these have not been utilised.

## Rating Sensitivities

**Anchored to Parent's Rating:** An upgrade of SCB's National Long-Term Rating could result in an upgrade to SCBS's rating. Increasing significance to the group, for example an increase in profit contribution, could result in zero notching. However, this is unlikely as SCBS operates in a smaller industry than the banking industry.

Conversely, a downgrade of SCB's rating could lead to a downgrade of SCBS's rating. A significant reduction of shareholding and support could lead to a wider notching between the ratings of SCBS and its parent.

## Related Research

Siam Commercial Bank Public Company Limited (July 2013)

## Analysts

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## SCB Securities Company Limited: Summary Balance Sheet

Financial Year Ended December (THBm)

	2012	2011	2010	2009	2008
<b>Assets</b>					
Cash and deposits at financial institutions	1,414.2	1,321.8	1,648.8	1,188.5	723.0
Loans to financial institutions				0.0	0.0
Investments					
Trading securities - net	27.0	0.6	0.0	2.8	142.0
Available-for-sale securities - net	124.6	121.3	118.6	117.6	388.0
Held-to-maturity securities due in one year - net	0.4	0.4	0.4	0.4	0.4
Held-to-maturity securities - net	2.8	2.8	2.8	0.0	0.0
Add (less): valuation allowance for investment	8.7	5.4	2.7	1.6	(58.3)
Receivables from clearing house	844.5	163.1	489.1	237.2	19.9
Securities and derivatives business receivables					
Securities & Derivative business receivables	2,592.1	801.8	450.7	712.9	303.7
Margin Loans	849.6	784.6	366.8	643.3	431.5
Total securities and derivatives business receivables (net)	3,441.6	1,586.4	817.5	1,356.2	735.2
Equipment - net	21.9	23.6	13.9	15.9	38.2
Intangible assets - net	18.7	11.7	15.1	18.2	19.2
Other assets	64.7	61.0	53.3	102.4	167.0
<b>Total assets</b>	<b>5,960.4</b>	<b>3,292.7</b>	<b>3,159.6</b>	<b>3,039.3</b>	<b>2,233.0</b>
<b>Liabilities and shareholders' equity</b>					
Payables to clearing house	823.2	329.8	0.0	90.6	85.0
Securities and derivatives business payables	2,501.0	628.9	872.6	851.7	170.5
Structure notes	239.4	0.0	0.0	0.0	0.0
Other derivative liabilities	9.9	0.0	0.0	0.0	0.0
Accrued expenses	60.7	34.2	33.2	38.2	10.9
Other liabilities	108.6	104.9	93.0	25.1	30.8
<b>Total Liabilities</b>	<b>3,742.7</b>	<b>1,097.8</b>	<b>998.8</b>	<b>1,005.5</b>	<b>297.2</b>
<b>Shareholders' equity</b>					
Share capital					
Issued and fully paid up	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Premium on Share Capital	0.0	0.0	0.0	0.0	0.0
Revaluation surplus on investment	10.1	6.8	4.1	3.1	2.4
Legal Reserve	121.5	113.2	96.8	93.9	93.9
Retained earnings/(Deficit)	86.0	74.9	59.8	(63.2)	(160.5)
<b>Total Shareholders' Equity</b>	<b>2,217.6</b>	<b>2,194.9</b>	<b>2,160.8</b>	<b>2,033.8</b>	<b>1,935.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,960.4</b>	<b>3,292.7</b>	<b>3,159.6</b>	<b>3,039.3</b>	<b>2,233.0</b>

Source: SCBS and Fitch

## Related Criteria

Global Financial Institutions Rating Criteria  
(August 2012)

National Ratings Criteria (January 2011)

Rating FI Subsidiaries and Holding Companies  
(August 2012)

Securities Firms Criteria (August 2012)

## SCB Securities Company Limited: Summary Income Statements

(THBm)

	2012	2011	2010	2009	2008
<b>Securities business income</b>					
Brokerage fees	642.8	660.0	625.4	435.6	550.4
Fees and service income	38.6	76.7	10.8	23.9	50.8
Gain (loss) on trading in securities and derivatives	18.3	(10.5)	4.2	15.9	(228.3)
Interest and dividend	62.3	69.8	28.4	30.0	64.1
Interest on margin loans	45.3	35.7	35.6	29.4	34.4
<b>Total Securities Business Income</b>	<b>807.4</b>	<b>831.8</b>	<b>704.4</b>	<b>534.8</b>	<b>471.5</b>
<b>Expenses on borrowing</b>	<b>16.1</b>	<b>10.5</b>	<b>5.5</b>	<b>6.2</b>	<b>9.1</b>
Fee and service expenses	60.1	57.1	48.7	38.8	39.2
<b>Net Securities Business Income</b>	<b>731.3</b>	<b>764.3</b>	<b>650.2</b>	<b>489.8</b>	<b>423.2</b>
Bad debt and doubtful accounts (reversal) and write-off	(3.8)	(5.8)	(16.5)	(18.8)	21.1
<b>Net Securities Business Income after Bad Debt and Doubtful Accounts</b>	<b>735.1</b>	<b>770.1</b>	<b>666.7</b>	<b>508.7</b>	<b>402.1</b>
Other income	18.2	5.0	5.6	10.4	16.5
<b>Operating expenses</b>					
Personnel expenses	348.5	295.3	293.8	244.3	322.8
Premises and equipment expenses	68.9	68.5	80.7	120.4	147.0
Other expenses	68.4	58.0	50.5	40.9	38.1
<b>Total Operating Expenses</b>	<b>485.8</b>	<b>421.8</b>	<b>425.0</b>	<b>405.6</b>	<b>507.9</b>
<b>Earnings before income tax</b>	<b>267.5</b>	<b>353.3</b>	<b>247.3</b>	<b>113.5</b>	<b>(89.2)</b>
Corporate income tax	(58.8)	(116.0)	(66.2)	(16.2)	(0.1)
<b>Net income (loss)</b>	<b>208.7</b>	<b>237.3</b>	<b>181.0</b>	<b>97.4</b>	<b>(89.3)</b>

Source: SCBS and Fitch

## SCB Securities Company Limited: Ratios Analysis

	2012	2011	2010	2009	2008
<b>Profitability</b>					
ROAA (%)	4.5	7.4	5.8	3.7	(2.0)
ROAE (%)	9.5	10.9	8.6	4.9	(2.5)
Compensation / Net Revenue (%)	46.5	38.4	44.8	48.8	73.4
Operating Expenses/Net Revenue (%)	64.8	54.8	64.8	81.1	115.5
<b>Asset quality</b>					
Margin Loans (THBm)	849.6	784.6	366.8	643.3	431.5
Margin Loans/ Equity (%)	38.3	35.7	17.0	31.6	22.3
NPLs (THBm)	261.0	267.0	272.7	286.6	285.8
NPLs/Total securities business receivables (%)	7.0	14.4	25.0	17.4	28.0
Net NPL/Equity (%)	0.0	0.0	0.0	0.0	0.0
LLR/NPLs (%)	100.0	100.0	100.0	100.0	100.0
<b>Capital and Leverage Ratios</b>					
Gross Debt / Equity (%)	10.8	0.0	0.0	0.0	0.0
Total Liabilities / Equity (%)	168.8	50.0	46.2	49.4	15.4
Equity/Assets (%)	37.2	66.7	68.4	66.9	86.7
Investment / Equity (%)	7.0	5.7	5.6	5.9	27.4
<b>Funding and Liquidity</b>					
Liquid Assets / Total Assets (%)	26.1	43.7	55.9	43.0	58.7
Liquid Assets / Total Liabilities (%)	41.6	131.0	176.7	130.0	441.3
Liquid Assets / Short-term Debts (%)	650.5	n.a.	n.a.	n.a.	n.a.
Long-term Debt / Assets (%)	0.0	0.0	0.0	0.0	0.0

Source: SCBS and Fitch

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