

# CREDIT RATING REPORT

## Bourse Securities Limited

**CariCRIS**

Caribbean Information &  
Credit Rating Services Limited

July 2015

TYPE OF RATING	RATING ASSIGNED
Corporate Credit Rating	<i>CariA-</i> (Foreign and Local Currency)

RATING HISTORY			
Date	Foreign and Local Currency	National Scale	Type of Rating
June 2015	<i>CariA-</i>	<i>ttA-</i>	Corporate Credit Rating
April 2014	<i>Rating Watch</i>		
June 2013	<i>CariA-</i>	<i>ttA-</i>	Corporate Credit Rating
May 2012*	<i>CariBBB+</i>	<i>ttBBB+</i>	Corporate Credit Rating

\* Initial rating.

### RATING DRIVERS

#### Strengths

- Consistent profitability with above average returns relative to peers
- Well-diversified, high credit quality investment portfolio
- Diverse earnings profile is likely to sustain profitability even with a sharp decline in revenues from any one source

#### Weaknesses

- Earnings and profits will likely continue to be less than most regional peers as a result of the small customer base and market share
- Concentrated funding base creates potential short-term liquidity risks

#### Rating Sensitivity Factors

- The outcome of the investigations by the regulator and the potential impact on the company
- The loss of any large clients representing 10% or more of funding liabilities
- A sustained rise in the cost to income ratio to at least 50% over the next 12 months

#### Analytical Contacts:

**Andre Joseph**  
Tel: 1-868-627-8879 Ext. 227  
E-mail: [ajoseph@caricris.com](mailto:ajoseph@caricris.com)

**Edward Jankey**  
Tel: 1-868-627-8879 Ext. 237  
E-mail: [ejankey@caricris.com](mailto:ejankey@caricris.com)

Website: [www.caricris.com](http://www.caricris.com)  
Email: [info@caricris.com](mailto:info@caricris.com)

**Disclaimer:** CariCRIS has taken due care and caution in compilation of data for this product. Information has been obtained by CariCRIS from sources which it considers reliable. However, CariCRIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. No part of this report may be published / reproduced in any form without CariCRIS' prior written approval. CariCRIS is also not responsible for any errors in transmission and especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this product.

## COMPANY BACKGROUND

---

Bourse Securities Limited (BSL) is a registered broker, dealer, underwriter and investment advisor with the Trinidad and Tobago Securities and Exchange Commission (TTSEC). The company is privately owned and was founded in 1996. Its product/service range includes securities brokering, mutual fund management, investment advisory, securities underwriting, and wealth management services. BSL also has a suite of 6 mutual funds, 4 of which are US \$ denominated funds, and 2 retirement funds. Its flagship fund, the Savinvest India Asia Fund (SIAF), was the first fund to be listed on the TTSE, and was reconfigured as an open-ended, unlisted mutual fund in 2012. In 2013, BSL also launched its Brazil Latin US\$ Exchange Traded Fund, the first mutual fund to be listed on the US\$ trading platform of the TTSE.

BSL has 3 wholly-owned subsidiaries, namely, Bourse Brokers Limited (BBL - a member of the Trinidad and Tobago Stock Exchange), the stockbroking arm of the business; Bourse International Asset Management, an IBC domiciled in St. Lucia primarily focused on the management of the group's investment portfolio, and Vanalta, a real estate holding company. BSL is domiciled in T&T and has 3 branches located in Port of Spain, Chaguanas and San Fernando.

On April 15, 2014, CariCRIS placed BSL on 'Rating Watch' pending the outcome of investigations by its regulator into public allegations of market manipulation made against its subsidiary, BBL. These allegations stemmed from BBL's role as the broker for both the purchase and sale of First Citizens Bank Limited shares on behalf of a client between September 2013 and January 2014. BSL, the parent company, is not the subject of any investigations by its regulator.

A CariCRIS rating is typically placed on Rating Watch when events occur that may affect the credit quality of the issuer/issue, the impact of which cannot be accurately assessed at that point in time. A rating placed on Rating Watch does not imply that the rating will necessarily change. Rating Watches are generally resolved and removed by the international rating agencies in a 4-6 month period. CariCRIS' initial approach to resolving this Rating Watch was to closely monitor developments and await the conclusion of the investigations by the regulators, as it seemed at the time that the matter would be concluded within 6 months.

To date, the regulator has not made any of its findings public, and there is the possibility that this issue may not be brought to a close in the near future. We have decided to remove the Rating Watch based on our uncertainty about whether BBL breached any regulatory procedures, the non-disclosure of any findings by the regulator, and the probability that this matter may not be brought to a close in the near future. If or when the regulator publishes its findings, this would be treated as an event, and CariCRIS may adjust its ratings accordingly, depending on our assessment of the impact of the findings on BSL.

## RATIONALE

Caribbean Information and Credit Rating Services Limited (CariCRIS) has removed Bourse Securities Limited (BSL) from 'Rating Watch' and reaffirmed its ratings of *CariA-* (Foreign and Local Currency) on its regional rating scale, and *ttA-* on the Trinidad and Tobago (T&T) national scale. These ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in the Caribbean and within T&T is **good**.

The factors supporting the company's ratings are:

### *Consistent profitability with above average returns relative to peers*

BSL recorded another profitable year in 2014 as shown in Table 1.

**Table 1**  
**BSL Summary Financial Performance (2010-2014)**

	2014	% chg	2013	% chg	2012	% chg	2011	% chg	2010
	<i>in TT \$'000</i>								
Net Interest Income (NII)	19,149	(5.4)	20,459	3.1	19,637	11.2	17,663	12.2	15,748
Non-Interest Income	29,057	(12.7)	33,079	45.1	22,943	14.8	19,979	(15.4)	23,606
Total Income	48,205	(10.0)	53,539	25.7	42,579	13.1	37,642	(4.3)	39,354
Total Expenses	20,103	5.4	19,078	34.4	14,197	46.7	9,679	(23.1)	12,592
PAT	28,064	(8.7)	30,722	74.3	17,626	(23.6)	23,058	(9.4)	25,463
Tangible Net Worth (TNW)	184,260	9.2	168,693	14.0	147,940	5.5	140,294	11.9	125,401
Total Assets	718,008	(9.6)	794,599	7.8	737,146	18.7	620,964	5.7	587,707
Total Interest-Bearing Liabilities	495,207	(17.3)	599,132	6.6	561,858	22.6	458,318	2.9	445,580
	<i>in %</i>								
Investment Yield	4.2		4.6		4.9		5.0		5.1
Interest Rate Spread	2.1		2.3		2.4		2.5		2.2
Cost to Income Ratio	39.2		32.9		29.6		22.1		29.4
Return on Assets	3.7		4.0		2.6		3.8		4.2
Return on Equity	15.9		19.4		12.2		17.4		21.6
TNW/Adjusted Assets	25.7		21.2		20.1		22.6		21.3

Source: BSL

Although profit after tax (PAT) was moderately lower than PAT in 2013, it was better than the 5-year average of TT \$25 million. The reduction in PAT was a consequence of a 9.6% contraction in the investment portfolio during 2014, which in turn lowered BSL's net interest income (NII), as average asset yields remained comparable year to year. Non-interest income also fell, driven

by declines of 16.7% (TT \$3.1 million) and 37.6% (TT \$1.7 million) in investment trading income and other income respectively.

Higher legal costs of TT \$2 million led to an uptick in total operating expenses in 2014. This occurred despite a 16.7% fall in staff expenses due to a significantly reduced short-term incentive payment. The efficiency ratio worsened in light of the lower revenues and increased expenses, and may deteriorate moderately with the possibility of further increases in legal expenses.

The company's average total revenues and profits are small compared to regional peers' results, and this somewhat moderates its overall ratings. However, BSL's efficiency, return on assets (ROA) and return on equity (ROE) ratios have been better than or comparable to the regional peer averages for the past 3 years as indicated in Table 2.

**Table 2**  
**BSL Summary Financial Performance versus Regional Peers**

	3-Year Historic Averages (FY2012-FY2014)			
	BSL	T&T Peers	J'mca Peers	Regional Peers
	<i>in TT \$'000</i>			
Total Income	48,108	343,065	387,125	372,438
Profit After Tax (PAT)	25,470	153,672	150,477	151,542
	<i>in %</i>			
Cost to Income Ratio	33.9	34.0	55.1	43.5
Return on Assets	3.4	2.6	2.1	2.2
Return on Equity	15.8	11.2	15.8	14.3

*Source: BSL and respective peers' financial statements*

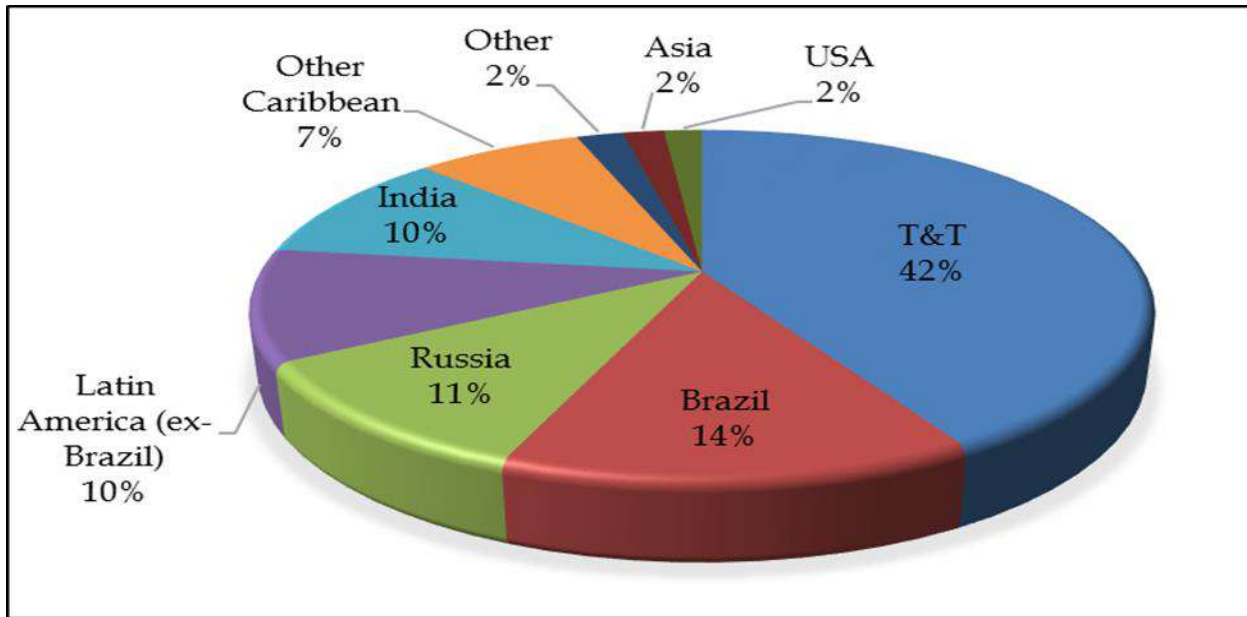
The fall in the funding base was due to the reduced utilization of an existing repo facility as BSL deleveraged its balance sheet.

CariCRIS expects BSL to continue to be profitable in the next 12-18 months, with PAT in line with the average for the prior 3 years. BSL is expected to remain profitable even under our stressed scenario for 2015, despite operating efficiency, ROA and ROE deteriorating to 61.9%, 2.4% and 7.1% respectively. Notably, the company is also adequately capitalized with the ratio of TNW to assets averaging 22.2% for the last 5 years, and we anticipate that a similar conservative leverage profile would be maintained over the short-term.

*Well-diversified, high credit quality investment portfolio*

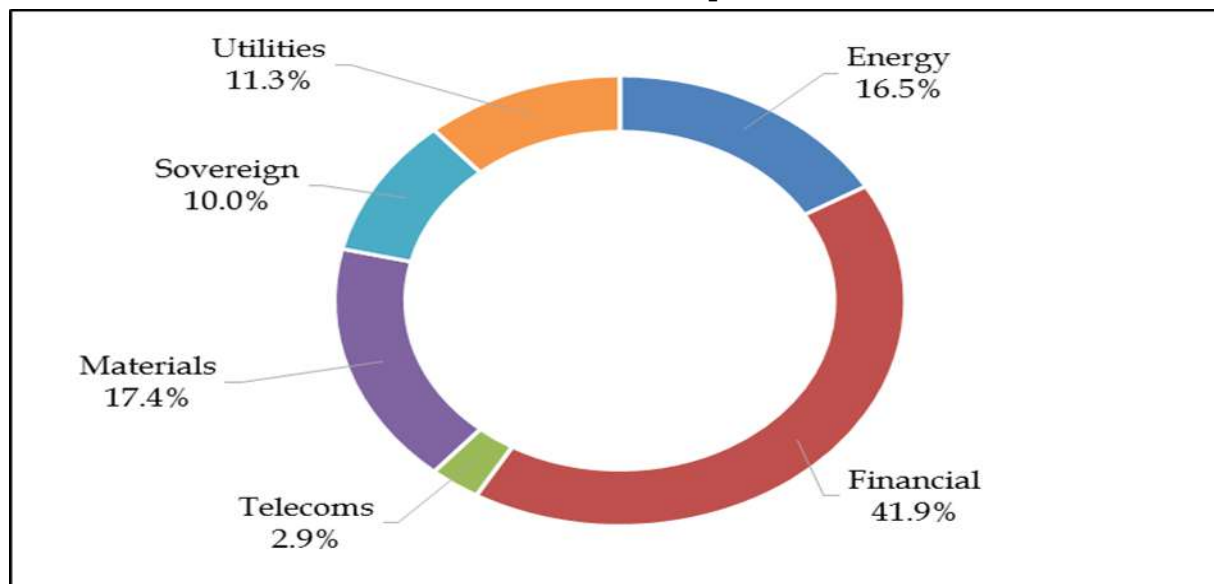
BSL's investment portfolio is moderately diverse, consisting of fixed-income securities (83.1%), equity securities (11.2%) and mutual funds (5.7%) as at December 31<sup>st</sup> 2014, similar to prior years. The investment portfolio is also diversified across different countries and regions (refer to Chart 1) and is compliant with the internal 20% maximum country and issuer exposure limits set by BSL, except in the case of the T&T exposure which is Board-approved. The portfolio is also well-diversified in terms of industry sectors (refer to Chart 2). The diversification and high credit quality of the portfolio is likely to reduce the impact of a shock to any single country or security. The credit quality of the portfolio also continues to be good as evidenced by the absence of impaired assets in the portfolio. Additionally, the portfolio's average credit rating is BBB- on the Standard and Poor's (S&P) rating scale, which is an investment grade rating.

**Chart 1**  
**BSL Investment Portfolio - Country Exposure as at Dec 31st 2014**



Source: BSL

**Chart 2**  
**BSL Investment Portfolio - Sector Exposure as at Dec 31st 2014**



Source: BSL

*Diverse earnings profile is likely to sustain profitability even with a sharp decline in revenues from any one source*

Based on BSL's current cost structure over the last 2 years, we expect that it would remain profitable even with the loss of any one of its revenue lines. This is because its income sources are well distributed. The single largest contributor for the last 3 years (net interest income) accounted for an average of 41.2% of total revenues, while non-interest earnings represented the majority of total income at a 3-year average of 58.8% as shown in Table 3 below.

**Table 3**  
**BSL's Total Income Mix (2012-2014)**

Revenue Type	2014		2013		2012		3-Year Average	
	TT \$'000	%	TT \$'000	%	TT \$'000	%	TT \$'000	%
Net Interest Income	19,149	39.7	20,459	37.8	19,637	46.1	19,679	41.2
Non-Interest Income	29,057	60.3	33,079	62.2	22,943	53.9	28,429	58.8
<i>Of which: Dividend Income</i>	2,533	5.3	1,659	3.1	1,388	3.3	1,860	3.9
<i>Net Investment Trading Income</i>	15,580	32.3	18,697	34.9	5,561	13.1	13,279	26.8
<i>Fee-Based Income</i>	8,106	16.8	8,175	15.3	8,488	19.9	8,257	17.3
<i>Other Income</i>	2,838	5.9	4,547	8.9	7,506	17.6	5,033	10.8
<b>Total Income</b>	<b>48,206</b>	<b>100.0</b>	<b>53,539</b>	<b>100.0</b>	<b>42,579</b>	<b>100.0</b>	<b>48,108</b>	<b>100.0</b>
PAT	28,064		30,722		17,626		28,429	

Source: BSL

In our opinion, this trend of diversity is likely to continue for the short-term, with proportional future contributions similar to the 3-year average.

The ratings are tempered by:

*Earnings and profits will likely continue to be less than most regional peers as a result of the small customer base and market share*

With an estimated 8,200 clients as at December 2014, the company's client base continues to be small relative to the number of clients at several of its regional peers. Furthermore, BSL does not have a significant share of any of the markets in which it operates, except for T&T stockbrokerage in which it ranks second overall.

These constraints limit BSL's ability to generate revenues and profits of comparable size to those of its larger peers on a consistent basis. We consider a company's capacity to reliably make above-average earnings and profits to be a credit strength, as that may ultimately facilitate better operating cash-flows and debt servicing metrics than the peer average.

*Concentrated funding base creates potential short-term liquidity risks*

BSL's funding base remains highly concentrated as the top 10 clients represented roughly 82.6% of aggregate funding liabilities as at December 2014. Moreover, the top 3 clients accounted for 51.4% of the funding base. BSL's exposure to its single largest investor declined to 26% in December 2014 from 31% 12 months earlier, but continued to be high in our opinion. Given that the funding base is comprised almost entirely of short-term repos, this exposes BSL to liquidity risk if the larger investors request their funds at short notice. The ratio of cash and cash equivalents to short-term liabilities has declined since 2012, while the company's negative cumulative liquidity gap has widened. Table 4 below provides some key liquidity statistics for BSL.

**Table 4**  
**Short-Term Liquidity Metrics (2012-2014)**

	2014	2013	2012	3-Yr Avg
	<i>in %</i>			
Cash to Short-Term Financial Liabilities	16.2	11.7	16.9	14.8
Cash & Cash Equivalents to Short-Term Finan. Liabilities	31.3	36.2	56.2	41.5
90-Day Cummulative Liquidity Gap (% of Total Finan. Liabilities)	-66.3	-41.1	-36.5	-47.0
1-Year Cummulative Liquidity Gap (% of Total Finan. Liabilities)	-22.5	-1.4	17.3	-1.1

Source: BSL

Notably, BSL continues to maintain sufficient liquid assets to cover over half of its exposure to its largest client. As at December 2014, BSL's cash and cash equivalents provided good coverage of 59.9% of its exposure to its largest client, though reduced compared to the ratio of 68% in the previous year. BSL further reduces its liquidity risk by staggering its repo maturities, and maintaining an investment portfolio that mostly consists of liquid securities. The company also has access to an unutilized line of credit of US \$10 million with an international bank, and a TT \$25 million overdraft facility with a local bank that can be drawn in either TT\$ or US\$ currency. The company also contacts its clients well in advance of the maturity date of their investments to determine the likelihood of reinvestment, which helps with liquidity planning.

#### **Rating Sensitivity Factors**

- The outcome of the investigations by the regulator and the potential company impact
- The loss of any large clients representing 10% or more of funding liabilities
- A sustained rise in the cost to income ratio to at least 50% over the next 12 months

**June 30, 2015**