

16 October 2020

Financial Services | Banks

TISCO Financial (TISCO TB)

Neutral (Maintained)

Earnings Rebound On Easing Of Lockdown

Target Price (Return): THB74.00 (12.5%)
 Price: THB65.80
 Market Cap: USD1,686m
 Avg Daily Turnover (THB/USD) 292m/9.33m

- Stay NEUTRAL with THB74.00 TP, offering 13% upside and c.7% yield.** The pick-up in business activities as well as lower expected credit loss (ECL) charges led to a strong QoQ rebound in TISCO Financial's 3Q20 earnings. There was also a marked improvement in asset quality with LLC shored up to 196%. That said, earnings prospects remain soft given expectations of slow economic recovery and high household leverage. We will revisit our forecasts and TP post results briefing.
- 9M20 within our expectations.** TISCO posted THB1,612m net profit (+21% QoQ; -14% YoY) in 3Q20, with 9M20 earnings at THB4,427m (-18% YoY). Its 9M20 net profit is in line with our expectations (74% of our FY20 forecast) but above consensus at 77% of full-year estimates. Annualised 9M20 ROE was 15.3%, down from FY19's 18.9%. Its capital position remained solid with Tier-1 ratio at 18.0%.
- Rebound in 3Q20 earnings.** The pick-up in activities following the easing of COVID-19 lockdown measures and implementation of economic stimulus in 3Q20 led to a healthy 7.6% QoQ recovery in operating income. However, a sharp 14.7% QoQ surge in opex moderated the rise in PIOP to 2.6% QoQ. NII was up 4% QoQ mainly on the 40bps QoQ expansion in NIM as maturing debentures were replaced with lower cost deposits. Non-Il rose a sharp 17% QoQ, boosted by a 24% QoQ increase in banking fee income that mitigated the 94% QoQ plunge in gains from investments. With ECL down 31% QoQ, net profit rebounded a sharp 21.2% QoQ. See Figure 1 for more details as well as analysis of 9M20 results.
- Marked decline in NPLs.** NPLs, which rose 23% QoQ in 2Q20, declined 20.9% QoQ in 3Q20. The easing of lockdown allowed for improved debt collection from its hire purchase (NPL: -21% QoQ) and cash for auto licences or auto cash (NPL: -23% QoQ) customers. One corporate client was also able to resume repayment. The NPL ratio improved to 2.63% (2Q20: 3.28%; 4Q19: 2.40%). As a result, ECL fell 31.4% QoQ to THB605m, with credit cost at 107bps vs 151bps in 2Q20. The LLC ratio stands at a high 196.1% (2Q20: 155.0%). Loans under debt relief programmes were stable QoQ at c.24% of loans.
- Loans and deposits.** Gross loans continued to contract, albeit by a smaller 1.4% QoQ (2Q20: -4.1% QoQ). Retail loans (79.3% of loans) dipped 1.5% QoQ mainly on stricter underwriting policy, while commercial loans (3.6% of loans) were down 4.2% QoQ on subdued private investments. The domestic car sales for Jan-Aug 2020 fell a sharp 33.4% YoY. Deposits were up 2.3% QoQ mainly on a 5% QoQ rise in Negotiable Certificates of Deposits, while CASA deposits were relatively stable (+0.6% QoQ).
- Earnings forecasts.** We make no changes to our earnings projections pending the company's results briefing on 16 Oct afternoon. Our THB74.00 TP is based on a GGM-derived P/BV of 1.4x. This compares to the historical mean of 1.43x P/BV.

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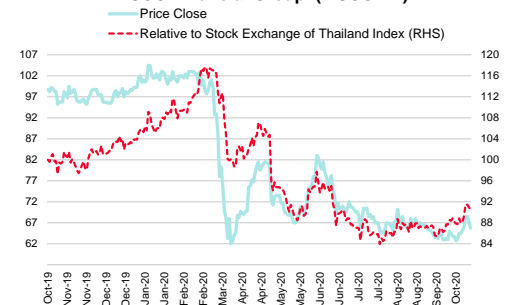
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.8)	3.5	(6.7)	(19.3)	(33.9)
Relative	(12.5)	6.9	1.5	(19.9)	(10.3)
52-wk Price low/high (THB)					62.0 – 105

TISCO Financial Group (TISCO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (THBm)	7,016	7,270	5,962	6,376	7,219
Net profit growth (%)	15.2	3.6	(18.0)	7.0	13.2
Recurring net profit (THBm)	7,016	7,270	5,962	6,376	7,219
Recurring EPS (THB)	8.77	9.08	7.45	7.96	9.02
BVPS (THB)	47.08	48.95	51.53	54.38	56.70
DPS (THB)	7.00	7.75	4.47	5.18	6.76
Recurring P/E (x)	7.50	7.24	8.83	8.26	7.29
P/B (x)	1.40	1.34	1.28	1.21	1.16
Dividend Yield (%)	10.6	11.8	6.8	7.9	10.3
Return on average equity (%)	19.4	18.9	14.8	15.0	16.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	EPS	8.77	9.08	7.45	7.96	9.02
Financial Services	Recurring EPS	8.77	9.08	7.45	7.96	9.02
TISCO Financial	DPS	7.00	7.75	4.47	5.18	6.76
TISCO TB	BVPS	47.08	48.95	51.53	54.38	56.70
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	7.50	7.24	8.83	8.26	7.29
Our GGM assumptions include:	P/B (x)	1.4	1.3	1.3	1.2	1.2
i. COE of 11.5%;	Dividend Yield (%)	10.6	11.8	6.8	7.9	10.3
ii. ROE of 15.3%;						
iii. Long-term growth of 2%.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key drivers	Interest income	17,690	17,478	16,595	16,362	17,622
Our forecasts are most sensitive to changes in:	Interest expense	(5,076)	(5,089)	(3,819)	(3,863)	(4,812)
i. Impairment allowance;	Net interest income	12,615	12,389	12,775	12,499	12,810
ii. Domestic car sales; and	Non interest income	7,418	6,643	5,044	5,372	5,895
iii. Stimulus measures would mitigate NPL risks and lift loan growth.	Total operating income	20,033	19,033	17,819	17,871	18,705
	Overheads	(8,753)	(9,271)	(7,369)	(7,620)	(7,826)
	Pre-provision operating profit	11,280	9,762	10,451	10,250	10,879
	Loan impairment allowances	(2,701)	(706)	(3,133)	(2,375)	(1,908)
	Pre-tax profit	8,578	9,056	7,318	7,875	8,971
	Taxation	(1,663)	(1,783)	(1,355)	(1,496)	(1,749)
	Minority interests	100	(3)	(1)	(3)	(3)
	Reported net profit	7,016	7,270	5,962	6,376	7,219
	Recurring net profit	7,016	7,270	5,962	6,376	7,219
	Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Company Profile	Return on average assets (%)	2.3	2.4	2.1	2.3	2.5
TISCO Financial Group is a holding company, with TISCO Bank as its core business. The bank specialises in auto hire purchase loans, which accounts for 70% of total loans. It also engages in retail and small and medium enterprise (SME) lending, corporate loans and private banking.	Return on average equity (%)	19.4	18.9	14.8	15.0	16.2
	Return on IEAs (%)	5.8	5.8	5.9	5.9	6.0
	Cost of funds (%)	2.0	2.0	1.7	1.7	2.1
	Net interest spread (%)	3.8	3.8	4.2	4.2	4.0
	Net interest margin (%)	4.2	4.1	4.5	4.5	4.4
	Non-interest income / total income (%)	37.0	34.9	28.3	30.1	31.5
	Cost to income ratio (%)	43.7	48.7	41.4	42.6	41.8
	Credit cost (bps)	110	29	135	105	80
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total gross loans	240,654	242,826	221,306	231,101	245,956
	Other interest earning assets	63,089	54,685	47,537	50,805	55,487
	Total gross IEAs	303,744	297,511	268,843	281,905	301,443
	Total provisions	(11,674)	(10,717)	(11,731)	(10,497)	(10,526)
	Net loans to customers	228,981	232,109	209,575	220,604	235,430
	Total net IEAs	292,070	286,795	257,112	271,409	290,917
	Total non-IEAs	10,475	11,510	9,522	9,736	9,762
	Total assets	302,545	298,304	266,634	281,144	300,680
	Customer deposits	193,108	216,085	194,476	205,172	220,560
	Other interest-bearing liabilities	60,180	29,980	21,955	20,706	19,849
	Total IBLs	253,289	246,064	216,431	225,879	240,409
	Total non-IBLs	11,426	13,044	8,942	11,726	14,869
	Total liabilities	264,715	259,108	225,373	237,605	255,278
	Share capital	8,007	8,007	8,007	8,007	8,007
	Shareholders' equity	37,697	39,193	41,258	43,536	45,398
	Minority interests	133	3	3	3	4
	Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	2.9	2.4	3.7	3.2	3.0
	Total provisions / reported NPLs (%)	169.8	183.7	145.1	143.6	143.0
	CET-1 ratio (%)	17.8	17.6	21.4	21.6	21.3
	Tier-1 ratio (%)	17.8	17.6	21.4	21.6	21.3
	Total capital ratio (%)	22.8	22.4	27.1	27.4	27.0

Source: Company data, RHB

Results At a Glance

Figure 1: TISCO's 3Q20 and 9M20 results summary

FYE Dec (THBm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments 9M20 vs 9M19
NII	3,111	3,128	3,252	4.0	4.6	9,320	9,838	5.6	Up YoY mainly on improved NIM.
<i>NIM (%) - reported</i>	4.30%	4.30%	4.70%			4.18%	4.63%		NIM expanded YoY on change in income recognition under TFRS 9 (to the "Effective Interest Rate" principle from the accrual of interest income of non-performing loans. In addition, funding cost was lowered by the cuts in FIDF rate in 1Q20 and replacement of maturing debentures with lower rate deposits.
Non-Il	1,653	1,234	1,443	17.0	-12.7	4,679	4,132	-11.7	Down YoY mainly because net fee income fell 12.8% YoY on lower loan-related fees and a slowdown in bancassurance business.
<i>Non-Il/total income (%)</i>	34.7%	28.3%	30.7%			33.4%	29.6%		
Operating income	4,763	4,362	4,696	7.6	-1.4	13,999	13,970	-0.2	
Overhead expenses	(2,303)	(1,815)	(2,082)	14.7	-9.6	(6,892)	(5,892)	-14.5	Lower YoY mainly on 18% YoY decline in staff cost and 11% YoY drop in other expenses.
<i>CIR (%)</i>	48.3%	41.6%	44.3%			49.2%	42.2%		
PIOP	2,461	2,547	2,614	2.6	6.2	7,107	8,078	13.7	
Impairment allowances	(125)	(882)	(605)	-31.4	383.5	(371)	(2,560)	590.3	The YoY increase was due to the adoption of ECL models under TFRS 9; THB840m additional allowance for deterioration of economic outlook and THB526m in amortisation of excess reserves.
<i>Annualised credit cost (bps)</i>	21	151	107			21	146		
Pretax profit	2,335	1,666	2,009	20.6	-14.0	6,737	5,518	-18.1	
Tax	(459)	(336)	(397)	18.1	-13.5	(1,328)	(1,091)	-17.8	
<i>Effective tax rate (%)</i>	19.7%	20.2%	19.8%			19.7%	19.8%		
Minority interest	2	(0)	(0)			(3)	(0)		
Net profit	1,878	1,329	1,612	21.2	-14.2	5,405	4,427	-18.1	
Other key data and ratios									
Gross loans (THB'bn)	240,742	228,165	224,900	-1.4	-6.6				Down 7% YTD with retail lending down 6.4% YTD and commercial loans -38.6% YTD. Its hire purchase loans contracted 6.5% YTD and housing loans fell 14.3% YTD.
Customer deposits	202,783	200,179	204,756	2.3	1.0				Down 5.2% YTD mainly on the 8.7% YTD decline in NCDs and 12.9% YTD fall in fixed deposits.
Non-performing loans	6,658	7,480	5,918	-20.9	-11.1				Up 1.4% YTD mainly on the 7% YTD rise in retail NPLs – auto HP NPLs +10% YTD and Auto Cash NPLs +44% YTD.
Total assets	283,866	275,114	275,949	0.3	-2.8				
Shareholders' funds	37,391	36,248	37,842	4.4	1.2				
ROAA (%)	2.61	1.84	2.34						
ROAE (%)	20.6	13.7	17.4			19.2	15.3		
LDR (%)	118.7	114.0	109.8						
NPL ratio (%)	2.77	3.28	2.63						
Loan loss reserves (%)	168.9	155.0	196.1						
Tier-1 capital ratio (%)	18.3	17.6	18.0						
Total capital ratio	23.2	22.0	22.6						

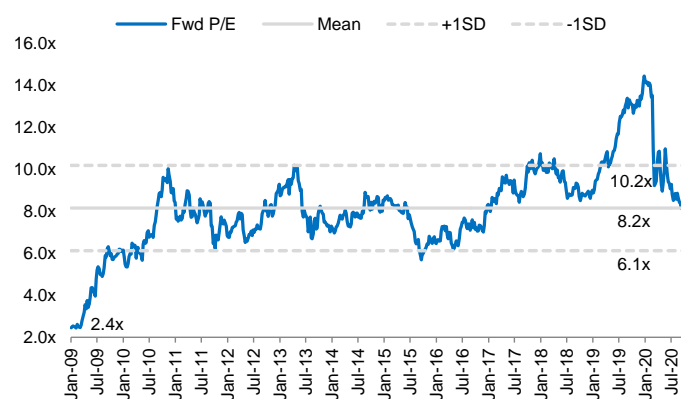
Source: Company data, RHB

Figure 2: TISCO – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	15.3
Risk free rate (%)	1.35	COE (%)	11.49
Equity premium (%)	9.06	Long-term growth (g)	2.0
Beta (x)	1.12	Implied P/BV (x)	1.40
Cost of equity - CAPM (%)	11.49	BVPS – FY20F-21F average	THB52.96
		Target price	THB74.20
		TP (rounded)	THB74.00

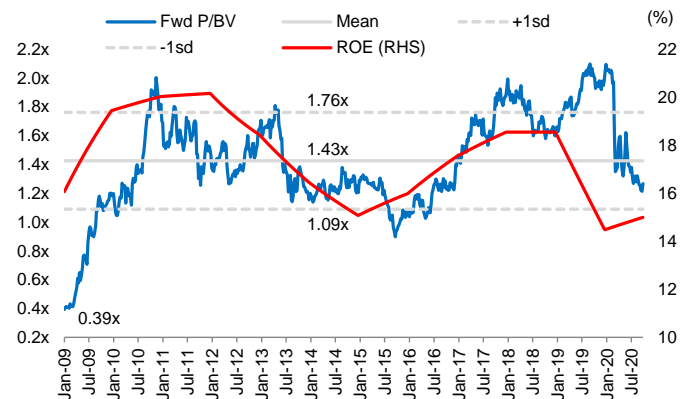
Source: Company data, RHB

Figure 3: TISCO's 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: TISCO's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-20	Neutral	74	69
2020-04-21	Neutral	84	82
2019-09-09	Neutral	108	104
2019-07-17	Buy	105	97
2019-02-13	Neutral	89	85
2018-10-16	Buy	93	79
2018-07-13	Buy	100	81

Source: RHB, Bloomberg

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Analyst	Company
-	-

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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