

19 October 2020

Financial Services | Banks

## TISCO Financial (TISCO TB)

**Buy** (from Neutral)

### Well-positioned To Weather COVID-19; U/G To BUY

Target Price (Return): THB81.70 (+20%)  
 Price: THB68.30  
 Market Cap: USD1,753m  
 Avg Daily Turnover (THB/USD) 300m/9.57m

- **Upgrade to BUY from Neutral, new THB81.70 TP from THB74.00, offering 20% upside with c.7% FY20F yield.** Post-briefing last Friday, we turn constructive on TISCO Financial Group. Management's continued vigilance in managing asset quality, and its measured approach in loan growth provide comfort that credit cost will remain well-controlled, despite the challenging economic environment. High provision buffers and a robust Tier-1 ratio of 18% would also strengthen TISCO's chances of getting the regulator's nod to pay dividends for FY20F.
- **Still cautious on outlook.** TISCO remains guarded on its outlook, despite delivering vastly improved earnings and asset quality in 3Q20 (see our 16 Oct report, [TISCO Financial: Earnings Rebound On Easing Of Lockdown](#)). Notwithstanding the pick-up in business activities with the lifting of lockdown measures, management believes the country's economic recovery remains fragile, with COVID-19 and the ongoing political rally being key risks.
- **Asset quality resilient.** Loans under debt relief programmes stood at 24% of total loans in 3Q20. Although an increase from 20% in 2Q20, it is still one of the lowest among Thai banks and reflects the resilient quality of TISCO's loan assets. Management expects NPLs to trend up again in 4Q20 and 1Q21, with the expiry of debt relief programmes. Should the NPL ratio stay below 3% (3Q20: 2.63%), there would be no significant rise in Expected Credit Loss (ECL) in 4Q20. Management believes provision buffers built up in 1H20 should be sufficient. At end-3Q20, the LLR ratio stood at a high 196%.
- **Careful on loan growth.** Management expects its loan portfolio to be sequentially flattish in 4Q20, despite the pick-up in demand for hire purchase and auto cash loans. Management does not intend to join its competitors in cutting rates, particularly in such uncertain times. TISCO prefers to focus on existing customers and will only add new ones with healthy balance sheets. We expect loans to shrink 7% YoY in FY20F, before rising 4% YoY in FY21F.
- **NIM to be stable.** Management expects NIM improvement gained in 3Q20 to be sustained in 4Q20. Funding cost will likely trend lower in 4Q20, but asset yields are also expected to come under some pressure.
- **Dividends.** With its Tier-1 ratio at 18.0% and total capital ratio at 22.6%, management is hopeful TISCO will be able to secure Bank of Thailand's (BoT) approval to distribute dividends for FY20F. Aside from its robust capital position, the bank's high LLR ratio of 196% at end-Sep 2020 is the other plus. To reflect expectations that BoT may prefer banking institutions to conserve capital in times of uncertainty, we have assumed a lower dividend payout ratio of 60%, vs FY19's 85%. This points to an attractive yield of 6.7%.
- **Earnings and TP.** We raise our forecasts by 3-4% for FY20F-21F, with upward revisions in NIM and non-IL moderated by higher credit costs (see Figure 1). Our TP is revised to THB81.70 from THB74.00, based on a GGM-derived P/BV of 1.5x against FY21F ROE of 15.6% (see Figure 2).

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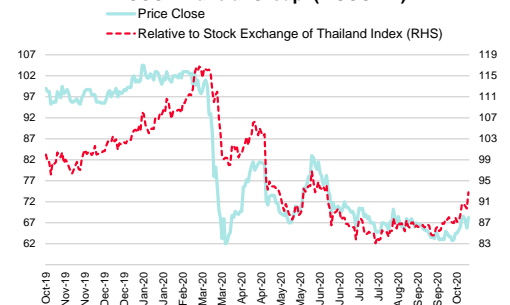
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.2)	7.1	(2.9)	(14.2)	(30.9)
Relative	(9.3)	11.7	5.6	(17.0)	(6.4)
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	6,138	6,639	7,371
Net profit growth (%)	15.2	3.6	(15.6)	8.2	11.0
Recurring net profit (THBm)	7,016	7,270	6,138	6,639	7,371
Recurring EPS (THB)	8.77	9.08	7.67	8.29	9.21
BVPS (THB)	47.08	48.95	51.60	54.56	56.94
DPS (THB)	7.00	7.75	4.60	5.39	6.91
Recurring P/E (x)	7.79	7.52	8.90	8.23	7.41
P/B (x)	1.45	1.39	1.32	1.25	1.20
Dividend Yield (%)	10.3	11.4	6.7	7.9	10.1
Return on average equity (%)	19.4	18.9	15.2	15.6	16.5

Source: Company data, RHB

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## Financial Exhibits

Asia		Financial summary (THB)				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	EPS	8.77	9.08	7.67	8.29	9.21
Financial Services	Recurring EPS	8.77	9.08	7.67	8.29	9.21
<b>TISCO Financial</b>	DPS	7.00	7.75	4.60	5.39	6.91
TISCO TB	BVPS	47.08	48.95	51.60	54.56	56.94
Buy						
Valuation basis		Valuation metrics				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Our GGM assumptions include:	Recurring P/E (x)	7.79	7.52	8.90	8.23	7.41
i. COE of 11.21%;	P/B (x)	1.4	1.4	1.3	1.3	1.2
ii. ROE of 15.8%; and	Dividend Yield (%)	10.3	11.4	6.7	7.9	10.1
iii. Long-term growth of 2%.						
Key drivers		Income statement (THBm)				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Our forecasts are most sensitive to changes in:	Interest income	17,690	17,478	16,950	16,667	18,328
i. Impairment allowance;	Interest expense	(5,076)	(5,089)	(3,704)	(3,464)	(4,487)
ii. Domestic car sales;	<b>Net interest income</b>	<b>12,615</b>	<b>12,389</b>	<b>13,246</b>	<b>13,203</b>	<b>13,840</b>
iii. Stimulus measures that would mitigate NPL risks and lift loan growth.	Non interest income	7,418	6,643	5,586	5,851	5,993
	<b>Total operating income</b>	<b>20,033</b>	<b>19,033</b>	<b>18,832</b>	<b>19,054</b>	<b>19,833</b>
	Overheads	(8,753)	(9,271)	(7,846)	(8,105)	(8,337)
	<b>Pre-provision operating profit</b>	<b>11,280</b>	<b>9,762</b>	<b>10,986</b>	<b>10,949</b>	<b>11,496</b>
	Loan impairment allowances	(2,701)	(706)	(3,310)	(2,646)	(2,298)
	<b>Pre-tax profit</b>	<b>8,578</b>	<b>9,056</b>	<b>7,676</b>	<b>8,302</b>	<b>9,198</b>
	Taxation	(1,663)	(1,783)	(1,538)	(1,660)	(1,821)
	Minority interests	100	(3)	(1)	(3)	(5)
	<b>Reported net profit</b>	<b>7,016</b>	<b>7,270</b>	<b>6,138</b>	<b>6,639</b>	<b>7,371</b>
	<b>Recurring net profit</b>	<b>7,016</b>	<b>7,270</b>	<b>6,138</b>	<b>6,639</b>	<b>7,371</b>
Key risks		Profitability ratios				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Downside risks include:	Return on average assets (%)	2.3	2.4	2.1	2.3	2.4
i. Slower-than-expected economic recovery;	Return on average equity (%)	19.4	18.9	15.2	15.6	16.5
ii. High household debt that could dampen consumer spending; and	Return on IEAs (%)	5.8	5.8	5.9	5.8	6.1
iii. A deterioration in loan quality that could lead to higher-than-expected provisions.	Cost of funds (%)	2.0	2.0	1.6	1.5	1.8
	Net interest spread (%)	3.8	3.8	4.3	4.3	4.3
	Net interest margin (%)	4.2	4.1	4.6	4.6	4.6
	Non-interest income / total income (%)	37.0	34.9	29.7	30.7	30.2
	Cost to income ratio (%)	43.7	48.7	41.7	42.5	42.0
	Credit cost (bps)	110	29	142	115	95
Company Profile		Balance sheet (THBm)				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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.	Total gross loans	240,654	242,826	225,000	235,200	248,641
	Other interest earning assets	63,089	54,685	55,750	57,600	60,918
	Total gross IEAs	303,744	297,511	280,750	292,800	309,559
	Total provisions	(11,674)	(10,717)	(12,007)	(12,627)	(12,534)
	Net loans to customers	228,981	232,109	212,993	222,573	236,107
	Total net IEAs	292,070	286,795	268,743	280,173	297,025
	Total non-IEAs	10,475	11,510	13,214	14,433	13,837
	Total assets	302,545	298,304	281,956	294,605	310,861
	Customer deposits	193,108	216,085	208,000	218,500	232,703
	Other interest-bearing liabilities	60,180	29,980	20,040	19,415	19,111
	Total IBLs	253,289	246,064	228,040	237,915	251,813
	Total non-IBLs	11,426	13,044	12,600	13,000	13,455
	Total liabilities	264,715	259,108	240,640	250,915	265,268
	Share capital	8,007	8,007	8,007	8,007	8,007
	Shareholders' equity	37,697	39,193	41,313	43,687	45,590
	Minority interests	133	3	3	4	4
Asset quality and capital		Asset quality and capital				
		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	2.9	2.4	2.8	3.0	2.9
	Total provisions / reported NPLs (%)	169.8	183.7	189.0	178.8	176.7
	CET-1 ratio (%)	17.8	16.4	21.0	21.4	21.3
	Tier-1 ratio (%)	17.8	16.4	21.0	21.4	21.3
	Total capital ratio (%)	22.8	20.8	26.5	27.0	26.9

Source: Company data, RHB

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## Earnings revisions

We increase net profit for FY20F and FY21F by 3-4%, after factoring in:

- Higher NIM to reflect improved funding costs;
- Higher non-II on expected pick-up in core fee income;
- Higher credit costs of 139bps (from 132bps) for FY20F and 114bps (from 104bps) for FY21F; and
- A slight upward revision in the effective tax rate.

Figure 1: TISCO – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	5,962	6,138	3.0	7.45	7.67	3.0	4.47	4.60	3.0
2021F	6,376	6,639	4.1	7.96	8.29	4.1	5.18	5.39	4.1
2022F	7,219	7,371	2.1	9.02	9.21	2.1	6.76	6.91	2.1

Source: RHB

## Valuation and recommendation

**TP raised.** Our TP is revised to THB81.70 from THB74.00, based on the following assumptions:

- Cost of equity lowered to 11.2% (from 11.5%), as we adjusted the equity risk premium to reflect TISCO's improved asset quality;
- ROE raised to 15.8% (from 15.3%), in line with the upward revision in earnings forecasts; and
- BVPS of MYR54.56 (from MY52.95) as we roll forward the base year to FY21F.

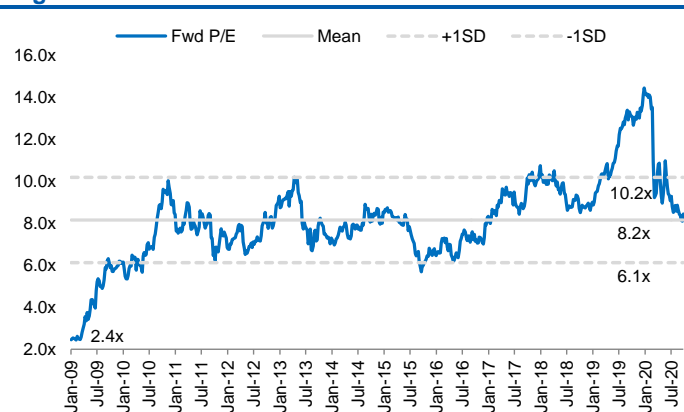
Our TP is based on a GGM-derived P/BV of 1.5x, which is slightly above the historical mean of 1.43x.

Figure 2: TISCO's GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	15.80
Risk free rate (%)	1.35	COE (%)	11.21
Equity premium (%)	8.81	Long-term growth (g)	2.0
Beta (x)	1.12	Implied P/BV (x)	1.50
Cost of equity - CAPM (%)	11.21	BVPS – FY21F average	THB54.56
		Target price	THB81.74
		<b>TP (rounded)</b>	<b>THB74.00</b>

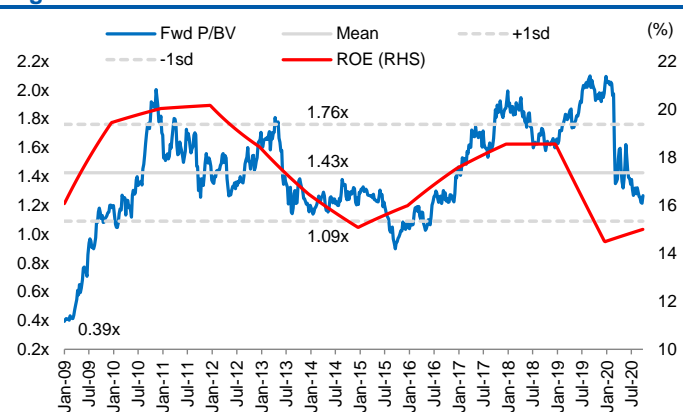
Source: Company data, RHB

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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-	-

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	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

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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